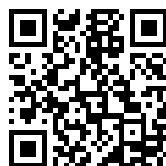

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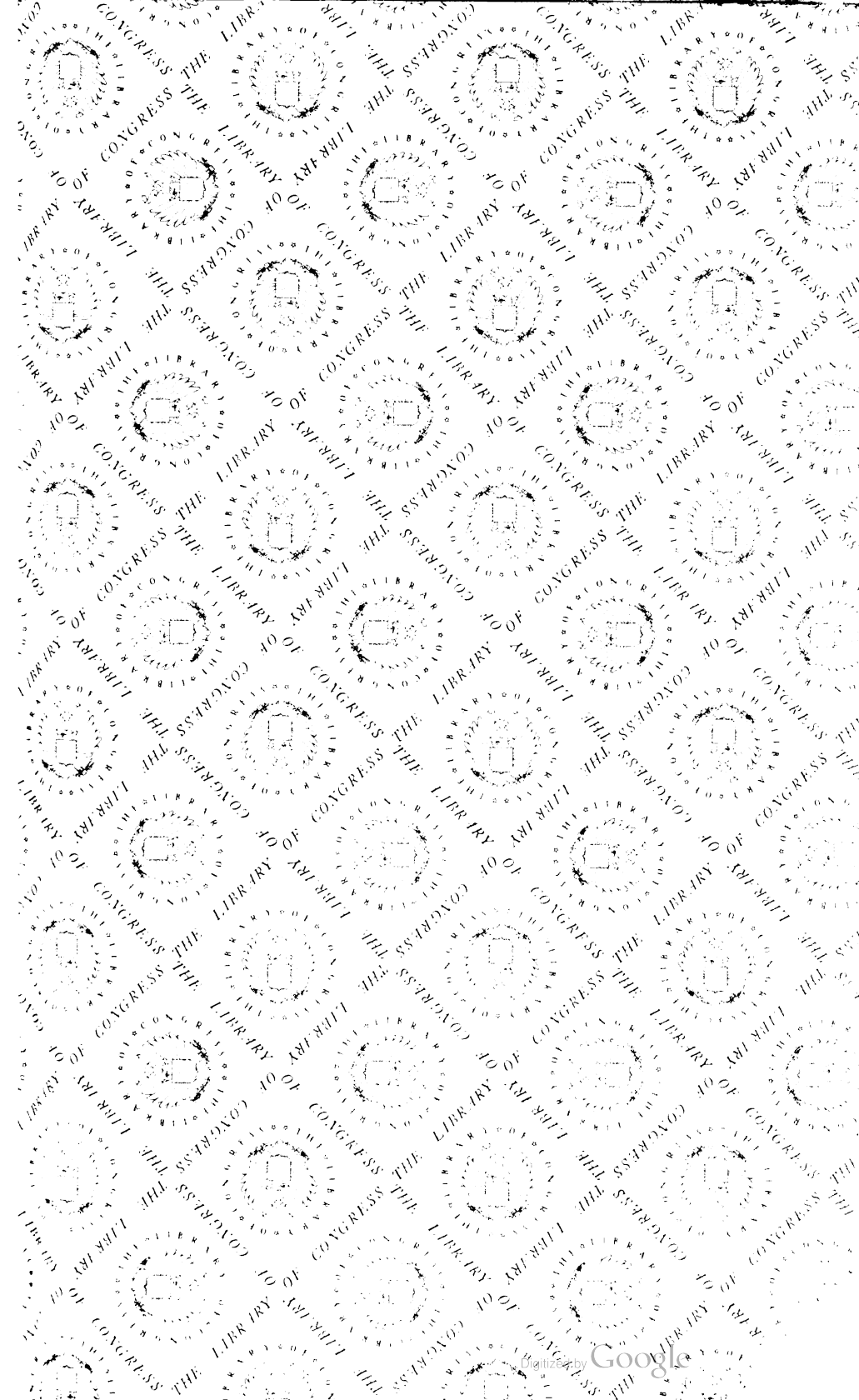
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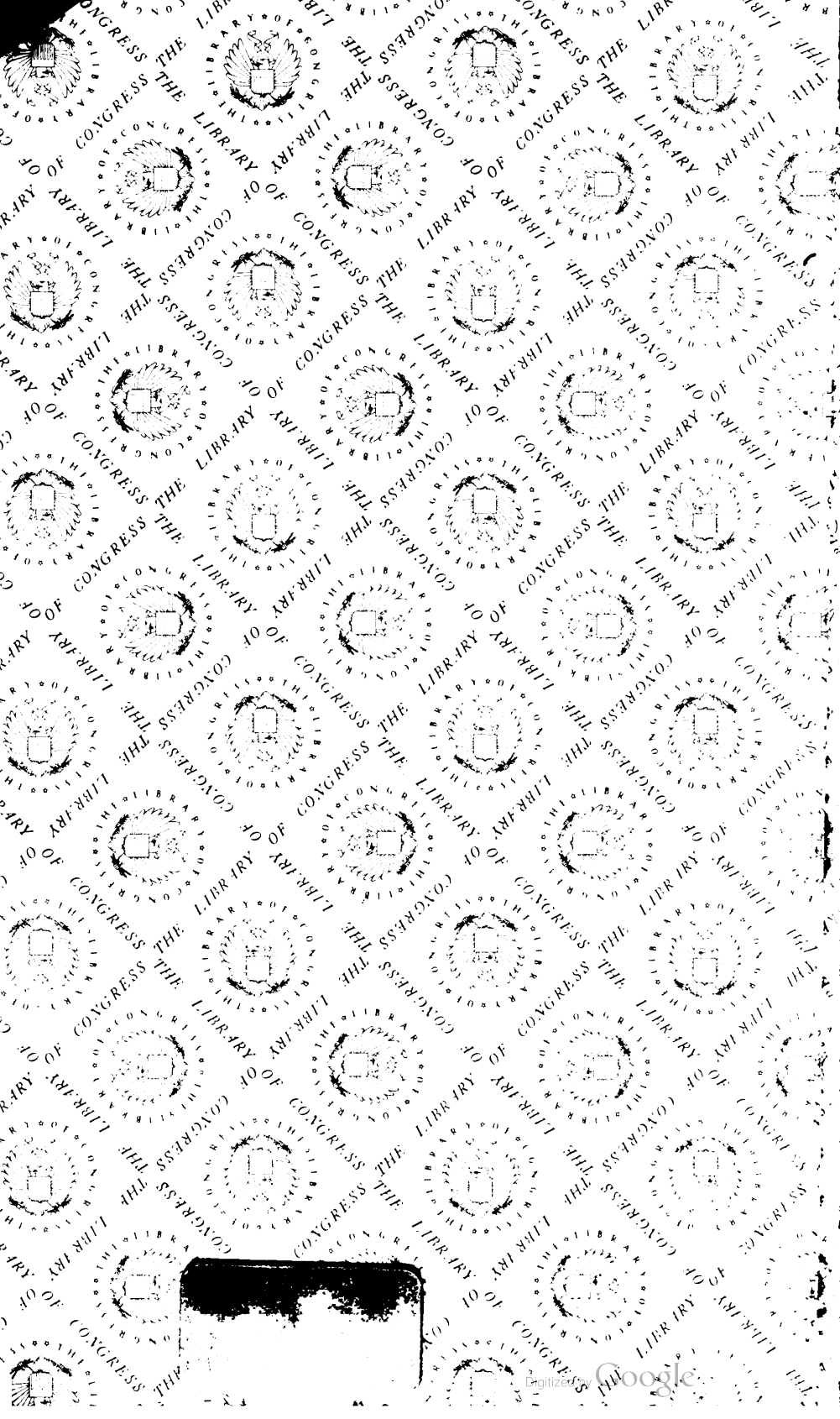
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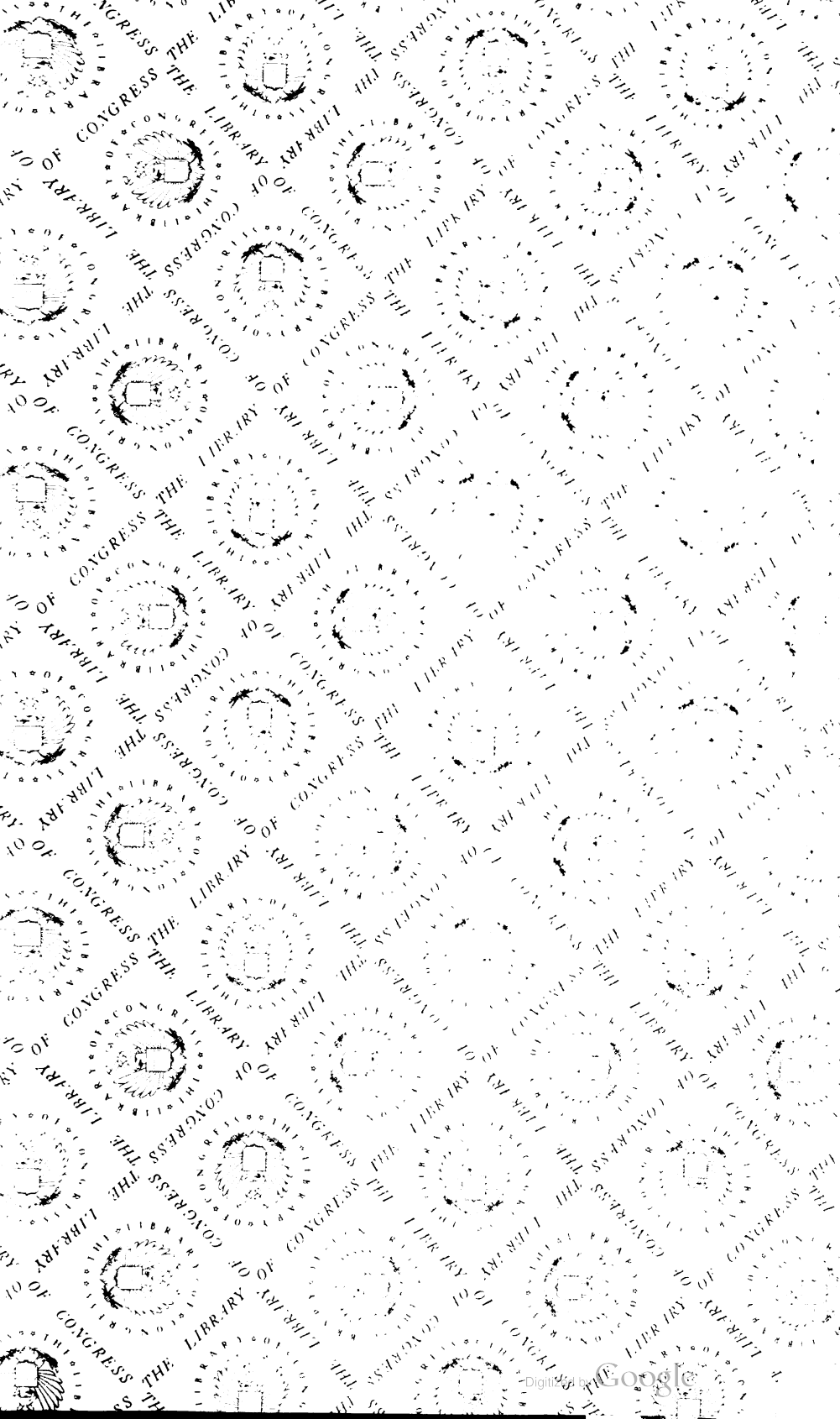
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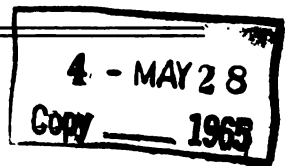








UNITED STATES-CANADA AUTOMOTIVE PRODUCTS AGREEMENT



HEARINGS

BEFORE THE

715 Congress. 1965
"COMMITTEE ON WAYS AND MEANS,

HOUSE OF REPRESENTATIVES

EIGHTY-NINTH CONGRESS

FIRST SESSION

ON

H.R. 6960

"THE AUTOMOTIVE PRODUCTS TRADE ACT OF 1965"

RED DIVISION

APRIL 27, 28, AND 29, 1965

Printed for the use of the Committee on Ways and Means

65-61538



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UNITED STATES-CANADA AUTOMOTIVE PRODUCTS AGREEMENT

TUESDAY, APRIL 27, 1965

**HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
Washington, D.C.**

The committee met at 10 a.m., pursuant to notice, in the committee room, Longworth House Office Building, Hon. Cecil R. King presiding.

Mr. KING. The committee will come to order.

The purpose of this hearing is to receive testimony from both the administration and the general public on H.R. 6960, a bill which was introduced at the request of the administration to provide for the implementation of the agreement concerning automotive products between the Government of the United States and the Government of Canada.

Without objection, I will place in the record a copy of the press release which was issued announcing the hearing.

Also, without objection, I will include in the record a copy of the committee print, which includes pertinent material prepared by the executive branch relating to the subject matter of the hearing. This pamphlet includes the President's message, as well as the text of H.R. 6960, in addition to a section-by-section analysis.

Finally, without objection, I will include in the record a copy of the summaries of testimony of the various witnesses which were submitted to the committee.

(The press release, committee print, and summaries follow:)

[Press release of the Committee on Ways and Means, Wednesday, Apr. 14, 1965]

**CHAIRMAN WILBUR D. MILLS, DEMOCRAT, OF ARKANSAS, ANNOUNCES HEARINGS ON
H.R. 6960, IMPLEMENTING THE AGREEMENT ON AUTOMOTIVE PRODUCTS BETWEEN
THE UNITED STATES AND CANADA**

SUBJECT

Chairman Wilbur D. Mills, Democrat, of Arkansas, Committee on Ways and Means, U.S. House of Representatives, today announced that the Committee on Ways and Means will begin hearings Tuesday, April 27, 1965, on H.R. 6960, to provide for the implementation of the agreement concerning automotive products between the Government of the United States of America and the Government of Canada, and for other purposes.

WITNESSES

The leadoff witnesses on the first day will be Under Secretary of State, the Honorable George W. Ball; Secretary of Commerce, the Honorable John T. Connor, and Secretary of Labor, the Honorable W. Willard Wirtz, in that order.

These witnesses will be followed by interested public witnesses. The chairman stated that it is expected that these hearings will be concluded no later than Thursday, April 29.

Due to the very limited time which can be devoted to these hearings, it will be essential that all interested persons and organizations with the same general interest designate one spokesman to represent them. As usual, any interested persons or organizations will be permitted to file a written statement for inclusion in the printed record of the hearings in lieu of a personal appearance.

CUTOFF DATE

The cutoff date for requests to be heard is the close of business Wednesday, April 21, 1965. Requests to be heard should be addressed to Leo H. Irwin, chief counsel, Committee on Ways and Means, 1102 Longworth House Office Building, Washington, D.C. Those persons scheduled to appear will be notified as soon as possible after the cutoff date—April 21.

WRITTEN STATEMENTS

It is requested that persons scheduled to appear and testify submit 60 copies of their prepared statement at least 24 hours in advance of their scheduled appearance.

Persons submitting written statements in lieu of a personal appearance should submit at least three copies of their statements by the close of business Thursday, April 29, 1965. Such persons may also, if they desire, submit an additional 60 copies of their statement for distribution to the committee members and the interested departmental and legislative staffs.

In the case of both those persons who appear in person and of those who submit written statements in lieu of a personal appearance—if it is desired that copies be distributed to the press and the interested public—it is suggested that 60 additional copies be submitted for this purpose. These additional 60 copies for the press can be delivered to the committee staff office (Room 1102 Longworth House Office Building) on the day of the witnesses' appearance in the case of those who are scheduled to appear. In the case of those submitting these additional statements who are not appearing in person, the copies should be received by the close of business Thursday, April 29.

To facilitate the hearings and to provide a more usable printed record of the hearing, it is strongly urged that all written statements contain (1) a summary of comments and recommendations, and (2) subject headings on the subjects and points covered.

INFORMATION REQUIRED IN REQUESTS

The chairman stated that in order for witnesses to be properly scheduled and for time to be equitably allocated it will be essential for the requests to be heard to contain the following information:

- (1) The name, address, and capacity in which the witness will appear and the group or persons he represents (including, in the case of an association, a membership list and/or the number of members);
- (2) The amount of time the witness desires in which to present his direct oral testimony;
- (3) An indication of whether or not the witness is supproting or opposing the provisions of H.R. 6960;
- (4) A topical outline or summary of the points which the witness desires to discuss before the committee.

PURPOSE OF OUTLINE OR SUMMARY

The purpose of requiring witnesses to set forth in topical outline or summary form the main points which they desire to make to the committee is to avoid useless, needless repetition and enable interested persons with the same general interest to designate one spokesman to represent them.

Since the interested public generally is probably aware of those persons and organizations who will request to be heard, it is urged that in advance of submitting requests efforts be made to coordinate testimony to the maximum extent possible where the witnesses have the same general interest. If necessary, the committee staff will circulate topical outlines or summaries submitted to those people with the same general interest so as to better enable them to coordinate and designate a spokesman. In any event, the summaries or topical outlines will be available in the committee office to all interested persons so as to serve this purpose.

[COMMITTEE PRINT]

COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES
EIGHTY-NINTH CONGRESS
FIRST SESSION

MATERIAL PREPARED BY EXECUTIVE BRANCH
CONCERNING H.R. 6960
AUTOMOTIVE PRODUCTS TRADE ACT OF 1965
INCLUDING
PRESIDENT'S MESSAGE
TEXT OF H.R. 6960
SECTION-BY-SECTION ANALYSIS OF H.R. 6960
AND
TEXT OF UNITED STATES-CANADIAN AGREEMENT
ARTICLE-BY-ARTICLE ANALYSIS OF AGREEMENT



APRIL —, 1965

NOTE.—This document is printed for information only so as to make it generally available to the public. It has not been reviewed or acted upon by the committee and is not to be construed as the statement or position of the committee or any member thereof

Printed for the use of the House Committee on Ways and Means

U.S. GOVERNMENT PRINTING OFFICE
WASHINGTON : 1965

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**MATERIAL CONCERNING AUTOMOTIVE PRODUCTS TRADE
ACT OF 1965**

PRESIDENT'S MESSAGE ON H.R. 6960

[H. Doc. 132]

89TH CONGRESS 1st Session	}	HOUSE OF REPRESENTATIVES	}	DOCUMENT No. 132
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**AGREEMENT CONCERNING AUTOMOTIVE PRODUCTS
BETWEEN THE UNITED STATES AND CANADA**

COMMUNICATION

FROM

THE PRESIDENT OF THE UNITED STATES

TRANSMITTING

**A DRAFT OF PROPOSED LEGISLATION TO PROVIDE FOR THE IM-
PLEMENTATION OF THE AGREEMENT CONCERNING AUTOMO-
TIVE PRODUCTS BETWEEN THE GOVERNMENT OF THE UNITED
STATES OF AMERICA AND THE GOVERNMENT OF CANADA, AND
FOR OTHER PURPOSES**

**MARCH 31, 1965.—Referred to the Committee on Ways and Means and ordered
to be printed**

**THE WHITE HOUSE,
Washington, March 31, 1965.**

**HON. JOHN W. McCORMACK,
*Speaker of the House of Representatives,
Washington, D.C.***

DEAR MR. SPEAKER: On January 16, Prime Minister Pearson of
Canada and I signed an important agreement looking toward freer

trade in automotive products between our two North American countries. This agreement resolves the serious difference which existed between Canada and the United States over our automotive trade. More significantly, it marks a long step forward in U.S. commercial relations with her greatest trading partner. It testifies to the good will and confidence between us.

The automotive producers of the United States and Canada make up a single great North American industry. The same kind of cars, using the same parts, are produced on both sides of the border, in many cases in factories only a few miles apart. Over 90 percent of the automobiles sold in Canada are assembled by firms owned in part or in whole by U.S. companies. The men and women who work in the plants on both sides of the border are members of the same international union.

Tariffs and other restrictions involving Canadian-United States trade in automotive products have been the cause of significant inefficiency in this great industry. Canadian plants produce a great variety of cars, essentially identical with those made in far larger numbers in the United States. Because the Canadian market is relatively small, production runs have been short, and costs and prices have been high. High costs and prices, in turn—supported by the tariff and other restrictions—have contributed to keeping the market small.

Historically, Canada's share in North American automotive production has lagged far behind her share in automotive purchases. In 1963, in an attempt to increase its share of the North American market, the Canadian Government put into effect a plan, involving the remission of tariffs, which was designed to stimulate automotive exports. A number of U.S. manufacturers, believing they would be injured by the plan, called upon this Government to impose countervailing duties. In all probability, such action would have invited retaliation. We were faced by the prospect of a wasteful contest of stroke and counterstroke, harmful to both Canada and the United States, and helpful to neither. Our broader good relations with our Canadian friends would have suffered strain.

To avoid such a dismal outcome, our two Governments bent every effort to find a rational solution to the problems of a divided industry. The Automotive Products Agreement that the Prime Minister and I signed in January is the result of our joint labors.

The agreement will benefit both countries. We will have avoided a serious commercial conflict. Canada will have achieved her objective of increasing her automotive production. U.S. manufacturers will be able to plan their production to make most efficient use of their plants, whether in Canada or the United States. They will save the price of the tariff and, over the longer run, we will benefit from the faster growth in the Canadian market which lower prices will make possible.

The agreement has already brought results. The Canadian Government revoked its controversial plan and, on January 18, reduced all relevant duties to zero. I am informed that the Canadian Parliament will be asked to give its approval in the near future.

We recognize, of course, that full integration of the North American automobile industry cannot be brought about all at once. To allow

time for adjustment, the Canadian sector of the industry—less than one-twentieth the size of ours—will operate initially under special arrangements. The agreement itself will be subject to comprehensive review no later than January 1, 1968. We should then be in a position to judge what further steps are necessary.

In signing the agreement, I pledged myself to ask the Congress to authorize the President to remove all U.S. duties on Canadian automobiles and parts for original equipment. I am today sending to the Congress draft legislation which would give the President that authority. The proposed legislation would also authorize the President to make similar automotive agreements with other countries, and to make agreements leading to mutually beneficial reduction of duties on replacement parts.

I repeat: In my judgment, the agreement will benefit both Canada and the United States, and the automotive industry and automotive workers in both countries. However, we recognize that adjustments in an industry of such size could result in temporary dislocation for particular firms and their workers. To provide appropriate relief, the bill I propose will make applicable the adjustment assistance of title III of the Trade Expansion Act of 1962.

The tariff change contemplated in the automotive agreement, is, however, a special case. Tariffs will be cut to zero, *all at one time*. Furthermore, dislocation, if it should occur, may well be due as much to the decrease in exports of certain products as to an increase in imports. Therefore, this bill calls for special procedures for obtaining adjustment assistance. These special procedures will be limited in application to this agreement and to a transition period of 3 years. If a similar agreement is made with another country, or if we should make agreements affecting replacement parts, appropriate adjustment assistance legislation will be recommended to the Congress.

* * *

The agreement and this bill are designed to lead to a more efficient organization of the North American automotive industry. It is based on mutual trust and will result in mutual benefit—benefit to producers, to labor, and to consumers on both sides of the border.

Canada has acted. It is our turn. In order that we may act, I ask the Congress to approve promptly this legislation.

Sincerely,

LYNDON B. JOHNSON.

SUMMARY OF H.R. 6960

Title I is a preamble.

Title II provides authority to the President—

to proclaim the necessary modifications of the Tariff Schedules to remove duties on automobiles and original equipment parts from Canada (§ 201(a)), retroactive to the date of the Agreement (§ 203).

to carry out similar agreements with any other country for mutual benefit (§ 202(a)).

to carry out an agreement with Canada or any other country for the reduction or removal of duties on replacement parts for mutual benefit (§ 202(b)).

to terminate any proclamation in whole or part (§ 204).

Title III provides for adjustment assistance:

It makes the adjustment assistance provisions of the Trade Expansion Act applicable to any dislocation suffered by any industry, firm or group of workers as a result of reductions or elimination of duties under the legislation (§ 301).

Until January 1, 1968, and only with respect to the elimination of duties under the Agreement, and only for firms and groups of workers, it provides special procedures for adjustment assistance (§ 302(a)).

The responsibility for making investigations to determine eligibility is placed in the President—not the Tariff Commission as under the TEA (§ 302(b)).

A firm or group of workers will be eligible to apply for adjustment assistance if the President finds that dislocation has occurred or is threatened in circumstances where total U.S. production of the automotive product made by it has decreased appreciably and either (a) imports of that product into the United States from Canada have increased appreciably or (b) exports of the product from the United States to Canada have decreased appreciably (§ 302 (b) and (c)).

If, despite these findings, the President nevertheless finds that some factor other than the operation of the Agreement was the primary factor in causing the dislocation, eligibility will be denied (§ 302(c)).

If the President finds dislocation has occurred (but cannot make the necessary findings re changes in production and trade), nevertheless the firm or group of workers will be eligible to apply for adjustment assistance if he finds the operation of the Agreement constitutes the primary factor in causing the dislocation (§ 302(d)).

It provides for investigations, public hearings, subpoena power, and confidentiality of information (§ 302 (e)–(k)).

It authorizes the President to delegate his functions regarding adjustment assistance (§ 302(1)).

If a further agreement is made, 3 months before a proclamation is issued under it the President will recommend to Congress appropriate adjustment assistance legislation for it (§ 303).

It authorizes appropriations to carry out functions under this title (§ 304).

Title IV contains definitions and lists the automotive products in the Tariff Schedules which title I gives the President authority to proclaim to be duty-free to carry out the Agreement.

Title V provides for an annual report to Congress.

TEXT OF H.R. 6960

AN ACT To provide for the implementation of the Agreement concerning Automotive Products between the Government of the United States of America and the Government of Canada, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

TITLE I—SHORT TITLE AND PURPOSES**SEC. 101. SHORT TITLE**

This Act may be cited as the “Automotive Products Trade Act of 1965”.

SEC. 102. PURPOSES

The purposes of this Act are—

(1) to provide for the implementation of the Agreement concerning Automotive Products between the Government of the United States of America and the Government of Canada signed on January 16, 1965 (hereinafter referred to as “the Agreement”), in order to strengthen the economic relations and expand trade in automotive products between the United States and Canada; and

(2) to authorize the implementation of such other international agreements providing for the mutual reduction or elimination of duties applicable to automotive products as the Government of the United States may hereafter enter into.

TITLE II—BASIC AUTHORITIES**SEC. 201. IMPLEMENTATION OF THE AGREEMENT.**

(a) The President is authorized to proclaim the modifications of the Tariff Schedules of the United States provided for in title IV of this Act.

(b) At any time after the issuance of the proclamation authorized by subsection (a), the President is authorized to proclaim further modifications of the Tariff Schedules of the United States to provide for the duty-free treatment of any Canadian article if he determines that such article is actually or potentially of commercial significance as an article imported for use as original motor-vehicle equipment (as defined by such Schedules as modified pursuant to subsection (a)) and that such duty-free treatment is required to carry out the Agreement.

SEC. 202. IMPLEMENTATION OF OTHER AGREEMENTS.

(a) Whenever, after determining that such an agreement will afford mutual trade benefits, the President enters into an agreement with the Government of a country providing for the mutual elimination of the duties applicable to those products of their respective countries which are motor vehicles and fabricated components intended for use

as original equipment in the manufacture of such vehicles, the President is authorized to proclaim such modifications of the Tariff Schedules of the United States as he determines to be required to carry out such agreement.

(b) Whenever, after having entered into an agreement with the Government of a country providing for the mutual elimination of the duties applicable to the products described in subsection (a), the President, after determining that such further agreement will afford mutual trade benefits, enters into a further agreement with such Government providing for the mutual reduction or elimination of the duties applicable to automotive products other than motor vehicles and fabricated components intended for use as original equipment in the manufacture of such vehicles, the President is authorized to proclaim such modifications of the Tariff Schedules of the United States as he determines to be required to carry out such further agreement.

SEC. 203. EFFECTIVE DATE OF PROCLAMATIONS.

(a) Subject to subsection (b), the President is authorized, notwithstanding section 514 of the Tariff Act of 1930 (19 U.S.C., sec. 1514) or any other provision of law, to give retroactive effect to any proclamation issued pursuant to section 201 of this Act as of the earliest date after January 17, 1965, which he determines to be practicable.

(b) The President shall, pursuant to subsection (a), give retroactive effect to any proclamation with respect to liquidated customs entries only upon request therefor filed with the customs officer concerned on or before the 90th day after the date of such proclamation and subject to such other conditions as the President may specify.

SEC. 204. TERMINATION OF PROCLAMATIONS.

The President is authorized at any time to terminate, in whole or in part, any proclamation issued pursuant to section 201 or 202 of this Act.

TITLE III—TARIFF ADJUSTMENT AND OTHER ADJUSTMENT ASSISTANCE

SEC. 301. GENERAL AUTHORITY.

(a) Subject to section 302 of this Act, a petition may be filed for tariff adjustment or for a determination of eligibility to apply for adjustment assistance under title III of the Trade Expansion Act of 1962 (19 U.S.C., sec. 1901–1991) as though the reduction or elimination of a duty proclaimed by the President pursuant to section 201 or 202 of this Act were a concession granted under a trade agreement.

(b) For purposes of applying chapter 3 of title III of the Trade Expansion Act of 1962, adjustment assistance shall be available to a worker covered by a certification made concerning a petition filed pursuant to subsection (a) only with respect to a total or partial separation which occurs after the date specified by the President in such certification as the date on which the unemployment or underemployment began or threatens to begin, and a readjustment allowance may be paid only for a week of unemployment which begins after that date.

SEC. 302. SPECIAL AUTHORITY DURING TRANSITIONAL PERIOD UNDER THE AGREEMENT.

(a) After the 30th day after the enactment of this Act and before July 1, 1968, a petition for a determination of eligibility to apply for adjustment assistance under section 301 of this Act may be filed with the President by—

(1) a firm which produces an automotive product, or its representative; or

(2) a group of workers in a firm which produces an automotive product, or their certified or recognized union or other duly-authorized representative.

(b) After a petition is filed by a firm or group of workers under subsection (a), the President shall promptly make an investigation to determine whether—

(1) dislocation of the firm or group of workers has occurred or threatens to occur;

(2) production in the United States of the automotive product like or directly competitive with that produced by the firm, or an appropriate subdivision thereof, has decreased appreciably; and

(3)(A) imports into the United States from Canada of the Canadian automotive product like or directly competitive with that produced by the firm, or an appropriate subdivision thereof, have increased appreciably; or

(B) exports from the United States to Canada of the United States automotive product like or directly competitive with that produced by the firm, or an appropriate subdivision thereof, have decreased appreciably, and the decrease in such exports is greater than the decrease, if any, in production in Canada of the Canadian automotive product like or directly competitive with the United States automotive product being exported.

(c) If the President makes an affirmative determination under paragraphs 1, 2, and 3 of subsection (b), with respect to a firm or group of workers, he shall promptly certify that as a result of its dislocation the firm or group of workers is eligible to apply for adjustment assistance, unless the President determines as a result of his investigation that the operation of the Agreement has not been the primary factor in causing or threatening to cause dislocation of the firm or group of workers.

(d) If the President makes an affirmative determination under paragraph 1 but a negative determination under paragraph 2 or 3 of subsection (b), with respect to a firm or group of workers, the President shall continue his investigation to determine whether the operation of the Agreement has nevertheless been the primary factor in causing or threatening to cause dislocation of the firm or group of workers. If the President makes such an affirmative determination, he shall promptly certify that as a result of its dislocation the firm or group of workers is eligible to apply for adjustment assistance.

(e) In the course of any investigation under this section, the President shall, after reasonable notice, hold a public hearing if requested by the petitioner, or if, within 10 days after notice of the filing of a petition, a public hearing is requested by any other person showing a

proper interest in the subject matter of the investigation, and shall afford interested persons an opportunity to be present, to produce evidence, and to be heard at such hearing.

(f) Any final determination of the President under subsection (b), (c), or (d) with respect to a firm or group of workers shall be made at the earliest practicable time, but not later than 60 days after the date on which the petition is filed, and a summary thereof shall be published promptly in the Federal Register.

(g) Any certification of dislocation with respect to a group of workers made by the President under this section shall—

(1) specify the date on which the dislocation began or threatens to begin; and

(2) be terminated by the President whenever he determines that the operation of the Agreement is no longer the primary factor in causing separations from the firm or subdivision thereof, in which case such determination shall apply only with respect to separations occurring after the termination date specified by the President.

(h) Any certification of dislocation with respect to a firm or a group of workers or any termination of such certification, including the specification of a date in such certification or termination, made by the President under this section shall constitute a certification or termination, including the specification of a date therein, under section 302 of the Trade Expansion Act of 1962 (19 U.S.C., sec. 1902) for purposes of chapter 2 or 3 of title III of that Act.

(i) Notwithstanding any provision of chapter 3 of title III of the Trade Expansion Act of 1962 or of this title, applications for—

(1) trade readjustment allowances for weeks of unemployment beginning before, and

(2) relocation allowances for a relocation begun or consummated before the 30th day after the enactment of this Act shall be determined in accordance with regulations prescribed by the Secretary of Labor.

(j) (1) For purposes of any investigation under this section, the President is authorized, by the issuance of a subpoena, to require any person to produce books, papers, or other documents relating to any matter pertaining to such investigation, and to furnish in writing, in such detail and in such form as he may prescribe, information relating to any matter pertaining to such investigation.

(2) In case of contumacy or refusal to obey a subpoena issued under paragraph 1, the President may invoke the aid of any district court of the United States within the jurisdiction of which the investigation is made, and such court may issue an order requiring the person concerned to produce the documents or furnish the information. Any failure to obey such order may be punished by the court as a contempt thereof.

(k) (1) Any information obtained under this section shall be available to the public.

(2) Notwithstanding paragraph 1, any interested person may make written objection to the public disclosure of any information obtained under this section, stating the grounds of such objection. Whenever such objection is made—

(A) the President shall treat such information as confidential and shall withhold such information from public disclosure, unless he determines that such disclosure would not adversely affect the interests of such person or is required in the interest of the public, in which event the President shall notify such person of his determination before such disclosure is made; and

(B) such information shall not be produced by the President for use as evidence, nor admitted as evidence, in any judicial or administrative proceeding not conducted under this section.

(3) Nothing in this section shall be deemed—

(A) to prevent or limit the admission as evidence in any judicial or administrative proceeding of any information obtained under authority other than that of this section; or

(B) to prevent the use or admission as evidence of information obtained under this section in any prosecution for perjury or for violation of section 1001 of title 18 of the United States Code committed in connection with the furnishing of such information.

(l) The President is authorized to exercise any of his functions under this section through such agency or other instrumentality of the United States Government as he may direct and in conformity with such rules or regulations as he may prescribe.

(m) For purposes of this section—

(1) The term “automotive product” means a motor vehicle or a fabricated component to be used as original equipment in the manufacture of motor vehicles.

(2) The term “dislocation” means—

(A) in the case of a firm, injury to the firm, which may be evidenced by such conditions as idling of productive facilities, inability to operate at a level of reasonable profit, or unemployment or underemployment, and which is of a serious nature; and

(B) in the case of a group of workers, unemployment or underemployment of a significant number or proportion of the workers of a firm or an appropriate subdivision thereof.

(3) The term “firm” includes an individual proprietorship, partnership, joint venture, association, corporation (including a development corporation), business trust, cooperative, trustees in bankruptcy, and receivers under decree of any court. A firm, together with any predecessor, successor, or affiliated firm controlled or substantially beneficially owned by substantially the same persons, may be considered a single firm where necessary to prevent unjustifiable benefits.

(4) The term “operation of the Agreement” includes governmental or private actions in the United States or Canada directly related to the conclusion or implementation of the Agreement.

SEC. 303. ADJUSTMENT ASSISTANCE RELATED TO OTHER AGREEMENTS.

No less than 3 months prior to the issuance of any proclamation pursuant to section 202 of this Act, the President shall recommend to the Congress such legislative provisions concerning adjustment assistance to firms and workers as he determines to be appropriate

in light of the anticipated economic impact of the reduction or elimination of duties provided by such proclamation.

SEC. 304. AUTHORIZATION OF APPROPRIATIONS.

There are hereby authorized to be appropriated to the President or the head of any agency performing functions under this title such sums as may be necessary from time to time to carry out such functions, which sums are authorized to be appropriated to remain available until expended.

TITLE IV—MODIFICATIONS OF TARIFF SCHEDULES OF THE UNITED STATES

SEC. 401. ENTRY INTO FORCE AND STATUS OF MODIFICATIONS.

(a) The modifications of the Tariff Schedules of the United States provided for in this title shall not enter into force except as proclaimed by the President pursuant to section 201(a) of this Act.

(b) The rates of duty in column numbered 1 of the Tariff Schedules of the United States which are modified pursuant to section 201(a) of this Act shall be treated—

(1) as not having the status of statutory provisions enacted by the Congress, but

(2) as having been proclaimed by the President as being required to carry out a foreign trade agreement to which the United States is a party.

SEC. 402. REFERENCES TO TARIFF SCHEDULES.

(a) Whenever in this title a modification is expressed in terms of a modification of an item or other provision, the reference shall be considered to be made to an item or other provision of the Tariff Schedules of the United States (28 F.R., pt. II, Aug. 17, 1963; 77A Stat.; 19 U.S.C., sec. 1202). Each page reference "(p.—)" in this title refers to the page both in part II of the Federal Register for August 17, 1963, and in volume 77A of the United States Statutes at Large on which the item or provision referred to appears or is to appear.

(b) Title I of the Tariff Act of 1930, as in effect on or after August 31, 1963, may be cited as the "Tariff Schedules of the United States".

SEC. 403. DEFINITION OF CANADIAN ARTICLE.

In general headnote 3 (p. 11) redesignate paragraphs (d), (e), and (f) as paragraphs (e), (f), and (g), respectively, and insert a new paragraph (d) as follows:

"(d) *Products of Canada.*

"(i) Products of Canada imported into the customs territory of the United States, whether imported directly or indirectly, are subject to the rates of duty set forth in column numbered 1 of the schedules. The rates of duty for a Canadian article, as defined in subdivision (d)(ii) of this headnote, apply only as shown in the said column numbered 1.

"(ii) The term 'Canadian article', as used in the schedules, means an article which is the product of Canada, but does not include any article produced with the use of materials imported into Canada

which are products of any foreign country (except materials produced within the customs territory of the United States), if the aggregate value of such imported materials when landed at the Canadian port of entry (that is, the actual purchase price, or, if not purchased, the export value, of such materials, plus, if not included therein, the cost of transporting such materials to Canada but exclusive of any landing cost and Canadian duty) was—

“(A) with regard to any motor vehicle or automobile truck tractor entered on or before December 31, 1967, more than 60 percent of the appraised value of the article imported into the customs territory of the United States; and

“(B) with regard to any other article (including any motor vehicle or automobile truck tractor entered after December 31, 1967), more than 50 percent of the appraised value of the article imported into the customs territory of the United States.”

SEC. 404. DEFINITION OF ORIGINAL MOTOR-VEHICLE EQUIPMENT.

In the headnotes of subpart B, part 6, schedule 6 add after headnote 1 (p. 325) the following new headnote:

“2. *Motor Vehicle and Original Equipment Therefor of Canadian Origin.*—(a) The term ‘*original motor-vehicle equipment*’, as used in the schedules with reference to a Canadian article (as defined by general headnote 3(d)), means such a Canadian article which has been obtained from a supplier in Canada under or pursuant to a written order, contract, or letter of intent of a bona fide motor-vehicle manufacturer in the United States, and which is a fabricated component intended for use as original equipment in the manufacture in the United States of a motor vehicle, but the term does not include trailers or articles to be used in their manufacture.

“(b) The term ‘*motor vehicle*’, as used in this headnote, means a motor vehicle of a kind described in item 692.05 or 692.10 of this subpart (excluding an electric trolley bus and a three-wheeled vehicle) or an automobile truck tractor.

“(c) The term ‘*bona fide motor-vehicle manufacturer*’, as used in this headnote, means a person who, upon application to the Secretary of Commerce, is determined by the Secretary to have produced no fewer than 15 complete motor vehicles in the United States during the previous 12 months, and to have installed capacity in the United States to produce 10 or more complete motor vehicles per 40-hour week. The Secretary of Commerce shall maintain and publish from time to time a list of the names and addresses of bona fide motor-vehicle manufacturers.

“(d) If any Canadian article accorded the status of original motor-vehicle equipment is not so used in the manufacture in the United States of motor vehicles, such Canadian article or its value (to be recovered from the importer or other person who diverted the article from its intended use as original motor-vehicle equipment) shall be subject to forfeiture, unless at the time of the diversion of the Canadian article the United States Customs Service is notified in writing, and, pursuant to arrangements made with the Service—

“(i) the Canadian article is, under customs supervision, destroyed or exported, or

"(ii) duty is paid to the United States Government in an amount equal to the duty which would have been payable at the time of entry if the Canadian article had not been entered as original motor-vehicle equipment."

SEC. 405. IDENTIFICATION OF AUTOMOTIVE PRODUCTS.

(a) Redesignate item 692.25 (p. 326) as 692.27; in headnote 1(b) of subpart B, part 6, schedule 6 (p. 325) substitute "item 692.27" in lieu of "item 692.25"; and insert in proper numerical sequence (pp. 325 and 326) new items as follows:

692.06	If Canadian article, but not including any electric trolley bus, three-wheeled vehicle, or trailer accompanying an automobile truck tractor (see general headnote 3(d))	Free
692.11	If Canadian article, but not including any three-wheeled vehicle (see general headnote 3(d))	Free
692.21	Chassis, if Canadian article, except chassis for an electric trolley bus, or a three-wheeled vehicle; bodies (including cabs), if Canadian article and original motor-vehicle equipment (see headnote 2 of this subpart)	Free
692.23	Chassis, if Canadian article, except chassis designed primarily for a vehicle described in item 692.15 or a three-wheeled vehicle; bodies (including cabs), if Canadian article and original motor-vehicle equipment (see headnote 2 of this subpart)	Free
692.25	If Canadian article and original motor-vehicle equipment (see headnote 2 of this subpart)	Free
692.28	Automobile truck tractors, if Canadian article; other articles, if Canadian article and original motor-vehicle equipment (see headnote 2 of this subpart)	Free

(b) Insert in proper numerical sequence (pp. 150, 229, 297, 305, 308, 321, 323, 355, and 364, respectively) new items as follows:

361.90	Any article described in the foregoing items 360.20 to 360.70, inclusive, 360.80, 361.80, or 361.85, if Canadian article and original motor-vehicle equipment (see headnote 2, part 6B, schedule 6).	Free
516.96	Any article described in the foregoing items 516.71 to 516.76, inclusive, or 516.94, if Canadian article and original motor-vehicle equipment (see headnote 2, part 6B, schedule 6).	Free
646.79	Any article described in the foregoing item 646.20 and items 646.40 to 646.78, inclusive (except 646.45 and 646.47), if Canadian article and original motor-vehicle equipment (see headnote 2, part 6B, schedule 6).	Free
652.30	Any article described in the foregoing items 652.12 to 652.38, inclusive, if Canadian article and original motor-vehicle equipment (see headnote 2, part 6B, schedule 6).	Free
658.10	Any article described in the foregoing items 657.09 to 658.00, inclusive, if Canadian article and original motor-vehicle equipment (see headnote 2, part 6B, schedule 6).	Free
682.65	Any article described in the foregoing items 682.10 to 682.60, inclusive (except 682.50), if Canadian article and original motor-vehicle equipment (see headnote 2, part 6B, schedule 6).	Free
685.55	Any article described in the foregoing items 685.20 to 685.50, inclusive, if Canadian article and original motor-vehicle equipment (see headnote 2, part 6B, schedule 6).	Free
721.20	Any article in the foregoing items covering clocks, clock movements, clock cases and dials and parts thereof, plates (720.67), assemblies and subassemblies for clock movements, and other parts for clock movements, if Canadian article and original motor-vehicle equipment (see headnote 2, part 6B, schedule 6).	Free
727.60	Any article described in the foregoing items 727.10 to 727.55, inclusive, if Canadian article and original motor-vehicle equipment (see headnote 2, part 6B, schedule 6).	Free

(c) Insert in proper numerical sequence (pp. 145, 164, 365, 380, and

395, respectively) new items 355.27, 389.80, 728.30, 745.80, and 774.70, each having an article description and rate as follows:

“	Any article described in the foregoing provisions of this subpart, if Canadian article and original motor-vehicle equipment (see headnote 2, part 6B, schedule 6).	Free	”.
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(d) Redesignate item 613.16 as 613.18; and insert in proper numerical sequence new items as follows:

207.01 (p. 92)	653.41 (p. 307)	684.51 (p. 322)
220.46 (p. 93)	660.43 (p. 310)	684.63 (p. 322)
357.91 (p. 147)	660.45 (p. 310)	684.71 (p. 323)
357.96 (p. 147)	660.47 (p. 310)	685.71 (p. 323)
358.11 (p. 147)	660.51 (p. 310)	685.81 (p. 323)
517.82 (p. 229)	660.53 (p. 310)	685.91 (p. 323)
535.15 (p. 242)	660.55 (p. 310)	686.11 (p. 323)
540.72 (p. 244)	660.86 (p. 310)	686.21 (p. 323)
544.18 (p. 247)	660.91 (p. 310)	686.61 (p. 324)
544.32 (p. 247)	661.11 (p. 310)	686.81 (p. 324)
544.42 (p. 247)	661.13 (p. 310)	687.51 (p. 324)
544.52 (p. 248)	661.16 (p. 310)	687.61 (p. 324)
544.55 (p. 248)	661.21 (p. 310)	688.16 (p. 324)
545.62 (p. 249)	661.36 (p. 311)	688.41 (p. 324)
545.64 (p. 249)	661.96 (p. 311)	711.85 (p. 346)
547.16 (p. 249)	662.36 (p. 312)	711.91 (p. 346)
610.81 (p. 273)	662.51 (p. 312)	711.93 (p. 346)
613.16 (p. 278)	664.11 (p. 312)	711.95 (p. 346)
613.19 (p. 278)	678.51 (p. 318)	711.97 (p. 346)
618.48 (p. 279)	680.21 (p. 319)	711.99 (p. 346)
620.47 (p. 281)	680.23 (p. 319)	712.26 (p. 346)
642.21 (p. 292)	680.28 (p. 319)	712.28 (p. 346)
642.86 (p. 294)	680.31 (p. 319)	712.51 (p. 346)
642.88 (p. 294)	680.36 (p. 319)	772.66 (p. 394)
646.93 (p. 298)	680.58 (p. 319)	772.81 (p. 394)
647.01 (p. 298)	680.61 (p. 319)	772.86 (p. 394)
647.06 (p. 298)	682.71 (p. 321)	773.26 (p. 395)
652.10 (p. 305)	682.91 (p. 321)	773.31 (p. 395)
652.76 (p. 306)	683.11 (p. 321)	773.36 (p. 395)
652.86 (p. 306)	683.16 (p. 321)	791.81 (p. 399)
652.88 (p. 306)	683.61 (p. 322)	791.91 (p. 399)

each such item having the article description “If Canadian article and original motor-vehicle equipment (see headnote 2, pt 6B, schedule 6) * * *” subordinate to the immediately preceding article description, and having “Free” in rate of duty column numbered 1.

TITLE V—GENERAL PROVISIONS

SEC. 501. AUTHORITIES.

The head of any agency performing functions authorized by this Act may—

- (1) authorize the head of any other agency to perform any of such functions; and
- (2) prescribe such rules and regulations as may be necessary to perform such functions.

SEC. 502. ANNUAL REPORT.

The President shall submit to the Congress an annual report on the implementation of this Act. Such report shall include information regarding new negotiations, reductions or eliminations of duties, reciprocal concessions obtained, and other information relating to activities under this Act.

SEC. 503. SEPARABILITY.

If any provision of this Act or the application of any provision to any circumstances or persons shall be held invalid, the validity of the remainder of this Act, and of the application of such provision to other circumstances or persons, shall not be affected thereby.

SECTION-BY-SECTION ANALYSIS OF H.R. 6960

The proposed Automotive Products Trade Act of 1965 consists of five titles. Title I (secs. 101-102) is entitled "Short Title and Purposes," title II (secs. 201-204) "Basic Authorities," title III (secs. 301-304) "Tariff Adjustment and Other Adjustment Assistance," title IV (secs. 401-405) "Modifications of Tariff Schedules of the United States," and title V (secs. 501-503) "General Provisions."

TITLE I—SHORT TITLE AND PURPOSES

Section 101. Short title

This section provides that the bill, when enacted, may be cited as the "Automotive Products Trade Act of 1965."

Section 102. Statement of purposes

This section sets forth the two basic purposes of the bill. The first purpose, set out in paragraph (1), is to provide for the implementation of the Agreement Concerning Automotive Products Between the Government of the United States and the Government of Canada of January 16, 1965 (hereinafter referred to as the United States-Canadian Agreement), in order to strengthen the economic relations and expand trade in automotive products between the two countries. Paragraph (1) also establishes the term "the Agreement" as the reference to the United States-Canadian Agreement used throughout the bill. The second purpose, set out in paragraph (2), is to authorize the implementation of such other international agreements providing for the mutual reduction or elimination of duties applicable to automotive products as the Government of the United States may enter into after enactment of the bill.

TITLE II.—BASIC AUTHORITIES

Section 201. Implementation of the agreement

Subsection (a) authorizes the President to proclaim the modifications of the Tariff Schedules of the United States provided for in title IV. When proclaimed, these modifications would accord duty-free treatment to the automotive products presently identified as coming within the terms of article II and Annex B of the United States-Canadian Agreement.

Subsection (b) authorizes the President, at any time after he has made the proclamation authorized by subsection (a), to proclaim additional modifications to provide for duty-free treatment of a Canadian article if he determines (1) that the article is actually or potentially of commercial significance as an article imported for use as original motor-vehicle equipment (as defined in title IV) and (2) that such duty-free treatment is required to carry out the United States-Canadian Agreement. This authority permits the President to implement the United States-Canadian Agreement by including

articles which may have been inadvertently omitted from title IV or which are not now used as original motor-vehicle equipment but which may later be so used.

Section 202. Implementation of other agreements

Subsection (a) authorizes the President to proclaim such modifications of the Tariff Schedules of the United States as he determines be required to carry out an agreement with the government of a country providing for the mutual elimination of duties applicable to those products of their respective countries which are motor vehicles and fabricated components intended for use as original equipment in the manufacture of such vehicles. Before entering into such an agreement, the President is required to find that it will afford mutual trade benefits. This provision permits the President to carry out agreements similar to the United States-Canadian Agreement which he might enter into with the governments of other countries. Such agreements are provided for by article V of the United States-Canadian Agreement.

Subsection (b) authorizes the President to proclaim such modifications of the Tariff Schedules of the United States as he determines to be required to carry out a further agreement with a government providing for the mutual reduction or elimination of duties applicable to automotive products other than those described in subsection (a). Before entering into such a further agreement, the President must have (1) already entered into an agreement with the government of such country providing for the mutual elimination of duties applicable to the products described in subsection (a) and (2) determined that such further agreement will afford mutual trade benefits. The United States-Canadian Agreement is an agreement "providing for the mutual elimination of the duties applicable to the products described in subsection (a)" and therefore subsection (b) would authorize the President to carry out such a further agreement with Canada.

Section 203. Effective date of proclamations

Subsection (a) authorizes the President, notwithstanding section 514 of the Tariff Act of 1930 or any other provision of law, to give retroactive effect to any proclamation issued under section 201 as of the earliest date after January 17, 1965, which he determines to be practicable. Section 514 provides that, in the absence of protests filed within certain specified periods of time, all decisions of the collector of customs, including the liquidation of entries, shall be final and conclusive. Subsection (a) permits the President to accord the duty-free treatment contemplated by the United States-Canadian Agreement as of the closest date to the signing of that Agreement he determines to be practicable. Such retroactive treatment is contemplated by article II(b) of the United States-Canadian Agreement. The provision would also permit the President, when exercising the authority granted by section 201(b) (concerning subsequent proclamations of modifications of the Tariff Schedules of the United States required to carry out the United States-Canadian Agreement), to make his proclamations retroactive and thereby allow duty-free entry to Canadian articles which after entry into the United States are determined by the President to come within the coverage of that

Agreement. The President will have the authority in such a case to determine to what date his proclamation may practicably refer back.

Subsection (b) provides that in exercising the authority granted in subsection (a) the President may give retroactive effect to any proclamation with respect to liquidated customs entries, but only upon request therefor filed with the customs officer concerned on or before the 90th day after the date of such proclamation and subject to such other conditions as the President may specify. This provision is directed principally to proclamations issued pursuant to section 201(b), since customs entries are not being liquidated with regard to the bulk of entries of the articles described in title IV. Consequently, the proclamation authorized by section 201(a) will deal in major part with unliquidated customs entries.

Section 204. Termination of proclamations

Section 204 provides that the President may at any time terminate in whole or in part any proclamation issued under section 201 or 202.

TITLE III—TARIFF ADJUSTMENT AND OTHER ADJUSTMENT ASSISTANCE

Section 301. General authority

Subsection (a) provides that, as a general matter, a petition may be filed for tariff adjustment (for an industry) or for a determination of eligibility to apply for adjustment assistance (for firms and workers) under title III (tariff adjustment and other adjustment assistance) of the Trade Expansion Act of 1962 (hereinafter referred to as the TEA) as though the reduction or elimination of a duty proclaimed by the President pursuant to either section 201 or 202 were a concession granted under a trade agreement within the meaning of section 301 of the TEA. Any agreement implemented pursuant to section 201 or 202 would arguably be a trade agreement. However, since section 301 of the TEA does not define this term, subsection (a) is intended to insure the availability of tariff adjustment or adjustment assistance following the reduction or elimination of duty proclaimed under either section 201 or 202.

By its terms, subsection (a) is subject to section 302. That is, within the 3-year and other limitations prescribed in section 302(a), the qualifying procedures of section 302 are intended to replace those provided in section 301 of the TEA. However, whether a petitioner qualifies under section 301 or 302 of the bill, the provisions of chapters 2, 3, and 4 of title III of the TEA, which contain the substantive provisions concerning adjustment assistance and tariff adjustment, remain virtually unchanged in their applicability to this bill.

In other words, subject only to the special qualifying provisions of section 302, which replace those in section 301 of the TEA, subsection (a) renders applicable—to any industry, firm, or worker affected by the reduction or elimination of duty under section 201 or 202—all the provisions of chapters 1, 2, 3, and 4 of title III of the TEA.

Subsection (b) establishes a critical date for purposes of applying chapter 3 of title III of the TEA, which relates to adjustment assistance for workers. It provides that if a petition is filed pursuant to subsection (a) and a certification of eligibility to apply for adjustment assistance is granted under section 302 of the TEA (as made applicable

by subsec. (a)), adjustment assistance shall be available to a worker only with respect to a total or partial separation which occurs after the date specified by the President in such certification, and a readjustment allowance may be paid only for a week of unemployment which begins after that date.

Section 302. Special authority during transitional period under the agreement

Subsection (a) provides that after the 30th day after the enactment of the bill and before July 1, 1968, a petition for a determination of eligibility to apply for adjustment assistance under section 301 may be filed with the President by certain persons. These are either a firm which produces an automotive product, or its representative, or a group of workers in a firm which produces an automotive product, or their certified or recognized union or other duly-authorized representative. By virtue of subsection (m)(1), the term "automotive product" is defined to mean a motor vehicle or a fabricated component to be used as original equipment in the manufacture of motor vehicles. It is intended that a group of 3 or more workers in a firm should qualify as a petitioner under this subsection.

Subsection (b) provides that, after a petition is filed by a firm or group of workers under subsection (a), the President shall promptly make an investigation to seek to establish three facts, as set out in paragraphs (1), (2), and (3).

Under paragraph (1) the President must seek to determine whether dislocation, as defined in subsection (m)(2), of the firm or group of workers has occurred or threatens to occur. It is intended that in most cases dislocation with respect to workers will be found where the unemployment in a firm, or an appropriate subdivision thereof, is 5 percent of the workers or 50 workers, whichever is less, or where the underemployment in such firm or appropriate subdivision is the equivalent of 5 percent of the workers or 50 workers, whichever is less. At the same time, there is a large number of workers in plants with fewer than 50 workers. Accordingly, there may be cases where as few as three workers in a firm, or an appropriate subdivision thereof, would constitute a significant number or proportion of the workers for purposes of the definition of dislocation.

Under paragraph (2) the President must seek to determine whether production in the United States of the automotive product like or directly competitive with that produced by the firm, or an appropriate subdivision thereof, has decreased appreciably.

Under paragraph (3) the President must seek to determine whether either of two events has occurred, that is, (1) whether imports into the United States from Canada of the Canadian automotive product like or directly competitive with that produced by the firm, or an appropriate subdivision thereof, have increased appreciably, or (2) whether exports from the United States to Canada of the U.S. automotive product like or directly competitive with that produced by the firm, or an appropriate subdivision thereof, have decreased appreciably. In the latter case, if there has been an appreciable decrease in exports of the U.S. product to Canada and there has been a decrease in production in Canada of the Canadian automotive product like or directly competitive with the U.S. product, then the decrease in

exports must be greater than the decrease in Canadian production of the Canadian automotive product.

For purposes of these paragraphs, it is intended that, when applied to a firm having more than one establishment, the term "appropriate subdivision" means a single establishment in which is produced the automotive product named or described in the petition. Where such a product is produced in a distinct part or section of an establishment, such part or section may be considered an "appropriate subdivision" of the firm.

As used in these paragraphs, the "like or directly competitive product" means the same product or a different product which performs the same function. It also covers such a product when included in another automotive part or component, insofar as it is practicable to identify and measure its inclusion in such other part or component.

With respect to the term "appreciably" in these paragraphs, a change of 5 percent in production, imports, or exports would normally be an appreciable one, but it is recognized that in many instances much smaller percentage changes will be large in absolute terms and therefore appreciable. In any case, however, the changes specified in these paragraphs must be absolute, whether they be increases or decreases.

For purposes of determining whether the changes specified in these paragraphs have taken place it is necessary to determine both a current period and a base period. It is believed that 3 to 4 recent consecutive months would usually be representative of the current period, and that the base period should be the model year 1964, except in cases where this year is considered to be an atypical one. Accordingly, in determining whether a given change has taken place, the current period consisting of 3 to 4 recent consecutive months would be compared against a comparable period in the model year 1964.

For purposes of these paragraphs, if data concerning production of the automotive product in question are not available, it is intended that use will be made of data concerning production of motor vehicles using such product, less imports plus exports of such product. If data concerning imports or exports of the automotive product in question are not available, use will be made of estimates based on the narrowest tariff classification possible which encompasses such product and for which statistics are available.

Subsection (c) provides that, if the President makes an affirmative determination under paragraphs (1), (2), and (3) of subsection (b), he shall promptly certify that as a result of its dislocation the firm or group of workers is eligible to apply for adjustment assistance—unless he determines as a result of his investigation that the operation of the United States-Canadian Agreement has not been the primary factor in causing or threatening to cause such dislocation. As used in this and other subsections, the "primary factor" would have to be greater in importance than any other single factor present in a given case. But it would not have to be greater than all the other factors combined or any combination thereof.

Subsection (d) provides that, if the President makes an affirmative determination concerning dislocation under paragraph (1) but a negative determination under paragraph (2) or (3) of subsection (b), he shall continue his investigation to determine whether the operation of the Agreement has nevertheless been the primary factor in causing

or threatening to cause dislocation of a firm or group of workers. In seeking to make such a determination, the nature of the industry will be taken into account. For example, as a result of the operation of the United States-Canadian Agreement shifts of production could take place in particular plants between related United States and Canadian firms which would not generate an appreciable decrease in domestic production, for purposes of subsection (b), but which would nevertheless cause or threaten dislocation. If the President makes such an affirmative determination, he shall promptly certify that as a result of its dislocation the firm or group of workers is eligible to apply for adjustment assistance.

Subsection (e) provides that in the course of any investigation under this section the President shall, after reasonable notice, hold a public hearing if it is requested by the petitioner, or if, within 10 days after notice of the filing of a petition, it is requested by any other person showing a proper interest in the subject matter of the investigation. In addition, the President shall afford interested persons an opportunity to be present, to produce evidence, and to be heard at such hearing.

Subsection (f) provides that any final determination of the President under subsection (b), (c), or (d) shall be made at the earliest practicable time, but not later than 60 days after the date on which the petition is filed, and a summary of such determination shall be published promptly in the Federal Register. By final determination is meant an affirmative determination under paragraphs (1), (2), and (3) of subsection (b) which is not upset by a negative determination under the "unless" clause of subsection (c), a negative determination under that clause, or an affirmative or negative determination under subsection (d).

Subsection (g) provides that any certification of dislocation with respect to a group of workers made by the President under this section shall specify the date on which the dislocation began or threatens to begin. It also provides that such a certification shall be terminated by the President whenever he determines that the operation of the United States-Canadian Agreement is no longer the primary factor in causing separations from the firm or subdivision thereof, in which case his determination shall apply only with respect to separations occurring after the termination date specified by him.

Subsection (h) provides that any certification of dislocation with respect to a firm or a group of workers or any termination of such certification, including the specification of a date in such certification or termination, made by the President under this section shall constitute a certification or termination, including the specification of a date therein, under section 302 of the TEA for purposes of chapter 2 or 3 of title III of the TEA. In particular, sections 311 and 322 of the TEA, relating to adjustment assistance to firms and workers, respectively, are rendered operative by a certification under section 302 of the TEA. Accordingly, this subsection is designed to insure that a certification under this section will operate to render applicable these basic provisions of chapters 2 and 3 of title III of the TEA.

Subsection (i) concerns applications for trade readjustment allowances for weeks of unemployment beginning before, and relocation allowances for relocations begun or consummated before, the 30th day

after the enactment of the bill. Under section 203 the President is authorized to give retroactive effect to any proclamation issued under section 201 as of the earliest date after January 17, 1965, which he determines to be practicable. Accordingly, the date on which dislocation began or threatens to begin, as specified in a certification of dislocation with respect to a group of workers, may be any time after the retroactive effective date of the President's proclamation. A worker may therefore be entitled to trade readjustment allowances for weeks of unemployment beginning after this date and before the 30th day after the enactment of the bill, or to relocation allowances for a relocation begun or consummated during this period, or both.

Under most State laws (which would be applicable under sec. 325 of the TEA) there are limitations on the extent to which claims may be filed, and availability and disqualification provisions may be applied, retroactively. Similarly, under section 329 of the TEA relocation allowances may not be paid for a relocation that occurs prior to the filing of an application for such allowances. Accordingly, to facilitate administration, the Secretary of Labor is authorized to promulgate regulations under which payments could be made with respect to this comparatively short period of time, notwithstanding any provision of chapter 3 of title III of the TEA or of this title. However, no worker shall be entitled to receive such allowances unless he meets the qualifying requirements set forth in section 322 of the TEA, as modified by section 301(b).

Subsection (j) provides for the production of certain kinds of information for purposes of any investigation under this section. Paragraph (1) authorizes the President, by the issuance of a subpoena, to require a person to produce books, papers, or other documents, and/or to furnish in writing information, relating to any matter pertaining to such investigation. Paragraph (2) provides that in case of refusal to obey such a subpoena, the President may invoke the aid of the appropriate U.S. district court. Such court may issue an order requiring the person concerned to produce the documents or furnish the information, and any failure to obey such order may be punished by the court as a contempt thereof.

Subsection (k) provides in paragraph (1) that any information obtained under this section shall be available to the public.

Paragraph (2) provides that, notwithstanding paragraph (1), any interested person may make written objection to the public disclosure of any information obtained under this section, stating the grounds of such objection. Whenever such objection is made, the President shall treat such information as confidential and shall withhold it from public disclosure, unless he determines that such disclosure either would not adversely affect the interests of such person or is required in the interest of the public, in which event the President shall notify such person of his determination before such disclosure is made. Disclosure to a person participating in a hearing held under this section would be included, together with disclosure to any other member of the public, within the term "public disclosure." In addition, whenever such objection is made, the information in question shall not be produced by the President for use as evidence, nor admitted as evidence, in any judicial or administrative proceeding not conducted under this section. This provision is designed to in-

sure that in any other judicial or administrative proceeding the information the public disclosure of which is objected to shall be obtained by separate means and under separate authority.

Paragraph (3) provides that nothing in this section shall be deemed to prevent or limit the admission as evidence in any judicial or administrative proceeding of any information obtained under authority other than that of this section. It also provides that nothing in this section shall be deemed to prevent the use or admission as evidence of information obtained under this section in any prosecution for perjury or for violation of section 1001 of title 18 of the United States Code committed in connection with the furnishing of such information. Section 1001 provides in general that any person who, in any matter within the jurisdiction of any agency of the United States, falsifies a material fact, makes any false statement, or makes use of any false document, shall be fined not more than \$10,000 or shall be imprisoned for not more than 5 years, or both.

Subsection (1) provides that the President is authorized to exercise any of his functions under this section through such agency or other instrumentality of the U.S. Government as he may direct and in conformity with such rules or regulations as he may prescribe.

Subsection (m) establishes four definitions for purposes of this section. Paragraph (1) defines the term "automotive product" to mean a motor vehicle or a fabricated component to be used as original equipment in the manufacture of motor vehicles.

Paragraph (2) defines the term "dislocation" to mean, in the case of a firm, injury to the firm, which may be evidenced by such conditions as idling of productive facilities, inability to operate at a level of reasonable profit, or unemployment or underemployment, and which is of a serious nature. In addition, it defines the term "dislocation" to mean, in the case of a group of workers, unemployment or underemployment of a significant number or proportion of the workers of a firm or an appropriate subdivision thereof.

Paragraph (3) defines the term "firm" to include any kind of instrumentality and provides for treating a firm and its predecessor, successor, or affiliate as one firm where appropriate.

Paragraph (4) defines the term "operation of the Agreement" to include governmental or private actions in the United States or Canada which the President determines to be directly related to the conclusion or implementation of the United States-Canadian Agreement. In particular, this definition is intended to permit the President to consider the economic effects of the arrangements concluded between the Canadian Government and automotive vehicle manufacturers in Canada.

Section 303. Adjustment assistance related to other agreements

This section provides that no less than 3 months prior to the issuance of any proclamation pursuant to section 202, the President shall recommend to the Congress such legislative provisions concerning adjustment assistance to firms and workers as he determines to be appropriate in light of the anticipated economic impact of the reduction or elimination of duties provided by such proclamation. It is intended that, after concluding any new agreement of the kind described in section 202, the President will make public his determina-

tion concerning the type of adjustment assistance which he believes should be available to any firms or workers which may be affected by the operation of that agreement.

Section 304. Authorization of appropriations

This section provides a general authorization of appropriations of funds to carry out the adjustment assistance program provided for in section 301(a), including the functions of the President provided for in section 302. It also authorizes such funds when appropriated to remain available until expended.

TITLE IV—MODIFICATIONS OF TARIFF SCHEDULES OF THE UNITED STATES

Section 401. Entry into force and status of modifications

Subsection (a) provides that the modifications of the Tariff Schedules of the United States (hereinafter referred to as the TSUS) provided for in this title shall not enter into force except as proclaimed by the President pursuant to section 201(a).

Subsection (b) provides that the new rates of duty in the TSUS proclaimed pursuant to section 201(a) shall be treated as having the status of modifications proclaimed by the President as required to carry out a trade agreement rather than statutory provisions enacted by the Congress. Without this provision it would be unclear whether, within the structure of the TSUS as established by section 103 of the Tariff Classification Act of 1962, the new rates of duty established pursuant to section 201(a) were or were not intended to be statutory in nature.

Section 402. References to tariff schedules

Subsection (a) provides that the modifications provided for in this title are modifications of items or other provisions of the TSUS. This is a technical provision which is designed to avoid repetitious references to the TSUS in the modifications of the TSUS provided for in this title.

Subsection (b) provides that title I of the Tariff Act of 1930, as amended by the Tariff Classification Act of 1962, may be cited as the Tariff Schedules of the United States. This provision establishes a statutory reference to the TSUS of general application, which was not provided in the Tariff Classification Act of 1962.

Section 403. Definition of Canadian article

Inasmuch as the duty-free treatment provided for in Annex B of the United States-Canadian Agreement is intended to apply only to certain products of Canada, this section adds a new paragraph (d) to general headnote 3 of the TSUS to provide generally for the status of all Canadian products and to define specifically the new term "Canadian article" for purposes of implementing that Agreement.

Subparagraph (i) of the new paragraph (d) provides that the most-favored-nation rates of duty in column numbered 1 in the TSUS apply to all products of Canada and that the other rates of duty provided for in this title apply only to "Canadian articles" as shown in column numbered 1.

Subparagraph (ii) of the new paragraph (d) establishes a definition of the term "Canadian article." As defined, this term means an

article which is the product of Canada and which may be produced with the use of either Canadian or United States materials without limit. If, however, the article is produced with materials imported into Canada from any third country and the aggregate value of such imported materials when landed at the Canadian port of entry is more than a certain stipulated percentage of the appraised value of the article when imported into the United States, then the article cannot qualify as a Canadian article.

Section 404. Definition of original motor-vehicle equipment

This section adds a new headnote 2 to subpart B of part 6 of schedule 6 of the TSUS, which subpart relates to motor vehicles. The new headnote 2 defines the terms "original motor-vehicle equipment," "motor vehicle," and "bona fide motor vehicle manufacturer," and establishes procedures for the enforcement of the new provisions of the TSUS.

Since subpart B contains the tariff provisions applicable to motor vehicles, it is the most appropriate place to define these key terms, which are designed to facilitate the identification (in subpt. B and elsewhere) in the TSUS of the Canadian articles to be accorded duty-free treatment. By selective use of the terms "Canadian article" (as defined in sec. 403) and "original motor-vehicle equipment" (which incorporates the terms "motor vehicle" and "bona fide motor-vehicle manufacturer"), it is possible with minimum repetition of language appropriately to modify each of the regular items of the TSUS.

Subsection (a) of the new headnote 2 defines the term "original motor-vehicle equipment." As defined, this term means (1) a Canadian article, (2) which has been obtained from a supplier in Canada under or pursuant to a written order, contract, or letter of intent of a bona fide motor-vehicle manufacturer in the United States, and (3) which is a fabricated component intended for use as original equipment in the manufacture in the United States of a motor vehicle. The term does not include trailers or articles to be used in the manufacture of trailers.

The term "supplier in Canada" includes a division, affiliate, or subsidiary of the importer or a company related thereto.

The term "letter of intent" reflects a practice in the automotive industry whereby automotive vehicle manufacturers arrange for the procurement of a new part from a supplier. A manufacturer will first invite bids for a certain part to be incorporated in a car for a given model year. When a supplier's design and bid have been accepted by the manufacturer, the supplier is notified that his part will be used in that model year. At that time, the supplier is given a firm order for a specific quantity of the parts for the first quarter of the model year. This order is frequently coupled with a qualified statement of intent by the manufacturer to purchase from the supplier all or part of such quantities of the part as may be needed for production in later quarters of the model year. Such a statement of intent is not, however, an order in the usual sense of the word. By including the term "letter of intent," the definition enables suppliers of parts to plan their operations and take advantage of duty-free importation of articles intended for use as original equipment in the manufacture

in the United States of motor vehicles, but without a specific order for a certain quantity of the part in question.

The term "fabricated component" is a term of limitation which embraces finished or unfinished components which will actually be incorporated into a motor vehicle. The term does not, however, include materials, such as metal plate, sheet, strip, wire, pipes and tubes, and textile piece goods. In other words, although at the time of importation the component does not have to be in a condition completely ready for assembly without further fabrication, it should at a minimum be so far processed as to be physically recognizable as a specific automotive component in an unfinished state.

Subsection (b) of the new headnote 2 defines the term "motor vehicle" as used in the definition of "original motor-vehicle equipment." Consistent with the United States-Canadian Agreement, which does not cover all motor vehicles, this term is defined to embrace motor vehicles for the transport of persons or articles, as provided for in items 692.05 and 692.10 of the TSUS, except electric trolley buses and three-wheeled vehicles. The term also includes automobile truck tractors when imported without their trailers. The inclusion of such automobile truck tractors within the scope of the United States-Canadian Agreement has been confirmed by an exchange of notes between the United States and Canada dated March 9, 1965.

Subsection (c) of the new headnote 2 defines the term "bona fide motor-vehicle manufacturer" as used in the definition of "original motor-vehicle equipment." As defined, the term means a person who, upon application to the Secretary of Commerce, is determined by the Secretary to have produced no fewer than 15 complete motor vehicles in the United States during the 12 months previous to such application, and to have installed capacity in the United States to produce 10 or more complete motor vehicles per 40-hour week. The Secretary of Commerce will maintain and publish from time to time a list of the names and addresses of bona fide motor-vehicle manufacturers, in order to facilitate administration of the new provisions of the TSUS.

Subsection (d) of the new headnote 2 provides an enforcement procedure to insure that any fabricated component admitted as being "intended for use as original equipment" is in fact so used. If any such article is diverted from such intended use, the article or its value is subject to forfeiture and is to be recovered from the importer or other person who so diverted it. Forfeiture may be avoided, however, if, at the time of the diversion of the article, the Customs Service is notified in writing and arrangements are made with it (1) for such article either to be destroyed under customs supervision or to be exported under such supervision, or (2) for the appropriate duty to be paid.

Section 405. Identification of automotive products

This section provides the appropriate modifications of the TSUS subordinate to the regular items of the TSUS, in order to provide for duty-free treatment of those imports which qualify as Canadian articles which are motor vehicles and original motor-vehicle equipment.

There follows a description of the major items covered by the modi-

fications of the TSUS provided by this section. The description includes references to the old and new TSUS numbers involved and an estimate of the percentage of total imports into the United States of Canadian automotive products accounted for by each item in the calendar year 1964.

Present and (new) TSUS numbers	Major items covered	1964: Estimated percent of U.S. imports from Canada (X=less than 1 percent)
692.05 (692.06)	Trucks and buses	4
692.10 (692.11)	Passenger cars	21
692.20 (692.21)	Bodies and chassis, trucks and buses	1
692.22 (692.23)	Bodies and chassis, passenger cars	X
692.24 (692.25)	Cast-iron parts, not alloyed and not advanced	X
692.25	Transmissions, wheels, brake drums, bumpers, radiators, tail pipes, steering gear assemblies, mufflers, etc.	29
(692.27 (692.28)		
360.20		
360.25		
360.30		
360.35		
360.36		
360.40	Textile floor coverings and floor covering underlays made up for automotive use.	X
360.45		
360.65		
360.70		
360.80		
361.80		
361.85		
516.71		
516.73		
516.74 (516.98)	Mica components for use in electrical equipment	X
516.76		
516.94		
646.20		
646.40		
646.41	Fasteners (staples, rivets, cotters, and cotter pins, screws, bolts, nuts, studs and studding, etc.)	1
646.42 and (646.79)		
646.49 through 646.78		
652.12 through (652.39)	Timing chains and other chains	0
652.38		
657.09 through (658.10)	Ornaments, decorative trim units, miscellaneous forgings, and castings.	X
658.00		
682.10 through 682.40 and (682.65)	Electric motors, generators, rectifiers, etc. (primarily small motors for use in motor vehicles).	X
682.55		
682.60		
685.20 through (685.55)	Radio, television, and phonographic equipment (limited in automotive use).	0
685.50		
Schedule 7, pt. 2 (721.20)	Clocks and parts	X
Subpt. E		
727.10 through (727.60)	Furniture and parts thereof (mainly metal for automotive use).	X
727.55		
207.00 (207.01)	Wooden components, not specifically provided for	X
220.45 (220.46)	Disks, washers, etc., of cork	X
357.90 (357.91)	Hose, of vegetable fiber or other textile materials	X
357.95 (357.96)		
358.10 (358.11)	Belts of rubber, vegetable fibers, plastics (e.g., fan belts)	X
517.81 (517.82)	Carbon and graphite brushes for generators or motors	0
535.14 (535.15)	Ceramic insulators and other ceramic electrical ware	0
540.71 (540.72)	Fiber glass components such as insulation panels	0
544.17 (544.18)	Glass components and various types and dimensions of cut.	0
544.31 (544.32)	Tempered glass components such as car windows	X
544.41 (544.42)	Laminated glass components, such as windshields	X
544.51 (544.52)	Mirrors	0
544.54 (544.55)		
545.61 (545.62)	Reflecting lenses and lenses for headlights and taillights	X
545.63 (545.64)		
547.15 (547.16)	Protective glass components	0
610.80 (610.81)		
613.15 (613.16)		
613.16 (613.19)	Pipe and tube fittings (e.g., fuel and hydraulic lines) of steel, copper, aluminum, nickel.	X
613.18		
618.47 (618.48)		
620.46 (620.47)		
642.20 (642.21)		
642.85 (642.86)	Cable fitted with fittings; wire mesh components	X
642.87 (642.88)		

Present and (new) TSUS numbers	Major items covered	1964: Estimated percent of U.S. imports from Canada (X=less than 1 percent)
646.92 (646.93)-----	Ignition, gas tank and door locks; hinges; handles; grills; metal letters and sign-plates.	X
647.00 (647.01)-----		
647.05 (647.06)-----	Springs for suspension.	5
652.09 (652.10)-----		
652.75 (652.76)-----	Other springs (for use with brake pedals, carburetors, etc.)	1
652.85 (652.86)-----	Auxiliary lighting equipment (e.g., parking, dome)	X
652.87 (652.88)-----	Diesel engines	X
653.40 (653.41)-----	Spark-ignition engines (e.g., standard gasoline engines)	16
660.42 (660.43)-----	Non-piston-type engines (turbines, etc.)	0
660.44 (660.45)-----	Engine parts (e.g., pistons, cylinder heads, crankshaft assemblies, connecting rods).	14
660.46 (660.47)-----		
660.50 (660.51)-----	Nonelectric engines and motors, not specifically provided for.	0
660.52 (660.53)-----	Fuel, oil, water, and carburetor pumps	X
660.54 (660.55)-----	Fans; compressors used in air conditioners and braking systems.	0
660.85 (660.86)-----	Air conditioners and parts; refrigerators and parts.	X
660.90 (660.91)-----		
661.10 (661.11)-----	Filtering and spraying equipment	0
661.12 (661.13)-----	Holsts, winches, etc.	X
661.15 (661.16)-----	Machinery, not specifically provided for (a catch-all)	0
661.20 (661.21)-----	Cooling system drain plugs; fuel system valves	X
661.35 (661.36)-----		
661.95 (661.96)-----	Balls, rollers, ball and roller bearings	X
662.35 (662.36)-----	Lubrication fittings	0
662.50 (662.51)-----	Nonelectric machinery parts, not specifically provided for (a catch-all).	0
664.10 (664.11)-----	Permanent magnets for use in small motors and solenoids; batteries and parts thereof.	X
678.50 (678.51)-----		
680.20 (680.21)-----	Starting and ignition equipment (mostly starters, generators, and spark plugs).	X
680.22 (680.23)-----		
680.27 (680.28)-----	Telephonic equipment; microphones, speakers, etc.	0
680.30 (680.31)-----	Directional signals, sirens, bells	X
680.35 (680.36)-----	Condensers	0
680.57 (680.58)-----	Fuses, plugs, switches, relays, lamp sockets	X
680.60 (680.61)-----	Automatic voltage regulators	X
684.62 (684.63)-----	Sealed-beam lamps	X
684.70 (684.71)-----	Bulbs	X
685.70 (685.71)-----	Transistors, insulated conductors	X
685.80 (685.81)-----		
685.90 (685.91)-----	Electrical articles, not specifically provided for (catch-all)	0
686.10 (686.11)-----		
686.20 (686.21)-----	Thermostats, oil pressure gages, taximeters, speedometers, odometers.	X
686.60 (686.61)-----		
686.80 (686.81)-----	Rubber tubing, gaskets, insulators, V-belts	X
687.50 (687.51)-----		
687.60 (687.61)-----		
688.15 (688.16)-----		
688.40 (688.41)-----		
711.84 (711.85)-----		
711.90 (711.91)-----		
711.92 (711.93)-----		
711.94 (711.95)-----		
711.96 (711.97)-----		
711.98 (711.99)-----		
712.25 (712.26)-----		
712.27 (712.28)-----		
712.50 (712.51)-----		
772.65 (772.66)-----		
772.80 (772.81)-----		
772.85 (772.86)-----		
773.25 (773.26)-----		
773.30 (773.31)-----		
773.35 (773.36)-----		
791.80 (791.81)-----		
791.90 (791.91)-----		

TITLE V—GENERAL PROVISIONS

Section 501. Authorities

This section gives authority to the head of any agency performing functions authorized by the bill to authorize the head of any other agency to perform any of such functions and to prescribe rules and regulations necessary to perform such functions.

Section 502. Annual report

This section provides that the President shall submit to the Congress an annual report on the implementation of the bill. Specifically, the report shall include information regarding new negotiations, reductions or eliminations of duties, reciprocal concessions obtained, and other information relating to activities under the bill.

Section 503. Separability

This section is a standard separability provision, designed to insure that the invalidity of one provision of the bill will not render the whole bill invalid.

TEXT OF UNITED STATES-CANADIAN AGREEMENT**AGREEMENT CONCERNING AUTOMOTIVE PRODUCTS BETWEEN THE GOVERNMENT OF THE UNITED STATES OF AMERICA AND THE GOVERNMENT OF CANADA**

The Government of the United States of America and the Government of Canada,

Determined to strengthen the economic relations between their two countries;

Recognizing that this can best be achieved through the stimulation of economic growth and through the expansion of markets available to producers in both countries within the framework of the established policy of both countries of promoting multilateral trade;

Recognizing that an expansion of trade can best be achieved through the reduction or elimination of tariff and all other barriers to trade operating to impede or distort the full and efficient development of each country's trade and industrial potential;

Recognizing the important place that the automotive industry occupies in the industrial economy of the two countries and the interests of industry, labor and consumers in sustaining high levels of efficient production and continued growth in the automotive industry;

Agree as follows:

ARTICLE I

The Governments of the United States and Canada, pursuant to the above principles, shall seek the early achievement of the following objectives:

(a) The creation of a broader market for automotive products within which the full benefits of specialization and large-scale production can be achieved;

(b) The liberalization of United States and Canadian automotive trade in respect of tariff barriers and other factors tending to impede it, with a view to enabling the industries of both countries to participate on a fair and equitable basis in the expanding total market of the two countries;

(c) The development of conditions in which market forces may operate effectively to attain the most economic pattern of investment, production and trade.

It shall be the policy of each Government to avoid actions which would frustrate the achievement of these objectives.

ARTICLE II

(a) The Government of Canada, not later than the entry into force of the legislation contemplated in paragraph (b) of this Article, shall accord duty-free treatment to imports of the products of the United States described in Annex A.

(b) The Government of the United States, during the session of the United States Congress commencing on January 4, 1965, shall seek enactment of legislation authorizing duty-free treatment of imports of the products of Canada described in Annex B. In seeking such legislation, the Government of the United States shall also seek authority permitting the implementation of such duty-free treatment retroactively to the earliest date administratively possible following the date upon which the Government of Canada has accorded duty-free treatment. Promptly after the entry into force of such legislation, the Government of the United States shall accord duty-free treatment to the products of Canada described in Annex B.

ARTICLE III

The commitments made by the two Governments in this Agreement shall not preclude action by either Government consistent with its obligations under Part II of the General Agreement on Tariffs and Trade.

ARTICLE IV

(a) At any time, at the request of either Government, the two Governments shall consult with respect to any matter relating to this Agreement.

(b) Without limiting the foregoing, the two Governments shall, at the request of either Government, consult with respect to any problems which may arise concerning automotive producers in the United States which do not at present have facilities in Canada for the manufacture of motor vehicles, and with respect to the implications for the operation of this Agreement of new automotive producers becoming established in Canada.

(c) No later than January 1, 1968, the two Governments shall jointly undertake a comprehensive review of the progress made towards achieving the objectives set forth in Article I. During this review the Governments shall consider such further steps as may be necessary or desirable for the full achievement of these objectives.

ARTICLE V

Access to the United States and Canadian markets provided for under this Agreement may by agreement be accorded on similar terms to other countries.

ARTICLE VI

This Agreement shall enter into force provisionally on the date of signature and definitively on the date upon which notes are exchanged between the two Governments giving notice that appropriate action in their respective legislatures has been completed.

ARTICLE VII

This Agreement shall be of unlimited duration. Each Government shall however have the right to terminate this Agreement twelve months from the date on which that Government gives written notice to the other Government of its intention to terminate the Agreement.

IN WITNESS WHEREOF the representatives of the two Governments have signed this Agreement.

DONE in duplicate at Johnson City, Texas, this 16th day of January 1965, in English and French, the two texts being equally authentic.

For the Government of the United States of America:

(S) LYNDON B. JOHNSON

(S) DEAN RUSK

For the Government of Canada:

(S) LESTER B. PEARSON

(S) PAUL MARTIN

ANNEX A

1. (1) Automobiles, when imported by a manufacturer of automobiles.

(2) All parts, and accessories and parts thereof, except tires and tubes, when imported for use as original equipment in automobiles to be produced in Canada by a manufacturer of automobiles.

(3) Buses, when imported by a manufacturer of buses.

(4) All parts, and accessories and parts thereof, except tires and tubes, when imported for use as original equipment in buses to be produced in Canada by a manufacturer of buses.

(5) Specified commercial vehicles, when imported by a manufacturer of specified commercial vehicles.

(6) All parts, and accessories and parts thereof, except tires, tubes and any machines or other articles required under Canadian tariff item 438a to be valued separately under the tariff items regularly applicable thereto, when imported for use as original equipment in specified commercial vehicles to be produced in Canada by a manufacturer of specified commercial vehicles.

2. (1) "Automobile" means a four-wheeled passenger automobile having a seating capacity for not more than ten persons;

(2) "Base year" means the period of twelve months commencing on the 1st day of August, 1963 and ending on the 31st day of July, 1964;

(3) "Bus" means a passenger motor vehicle having a seating capacity for more than 10 persons, or a chassis therefor, but does not include any following vehicle or chassis therefor, namely an electric trackless trolley bus, amphibious vehicle, tracked or half-tracked vehicle or motor vehicle designed primarily for off-highway use;

(4) "Canadian value added" has the meaning assigned by regulations made under section 273 of the Canadian Customs Act;

(5) "Manufacturer" of vehicles of any following class, namely automobiles, buses or specified commercial vehicles, means, in relation to any importation of goods in respect of which the description is relevant, a manufacturer that

(i) produced vehicles of that class in Canada in each of the four consecutive three months' periods in the base year, and

(ii) produced vehicles of that class in Canada in the period of twelve months ending on the 31st day of July in which the importation is made,

(A) the ratio of the net sales value of which to the net sales value of all vehicles of that class sold for consumption in Canada by the manufacturer in that period is equal to or higher than the ratio of the net sales value of all vehicles of that class produced in Canada by the manufacturer in the base year to the net sales value of all vehicles of that class sold for consumption in Canada by the manufacturer in the base year, and is not in any case lower than seventy-five to one hundred; and

(B) the Canadian value added of which is equal to or greater than the Canadian value added of all vehicles of that class produced in Canada by the manufacturer in the base year;

(6) "Net sales value" has the meaning assigned by regulations made under section 273 of the Canadian Customs Act; and

(7) "Specified commercial vehicle" means a motor truck, motor truck chassis, ambulance or chassis therefor, or hearse or chassis therefor, but does not include:

(a) any following vehicle or a chassis designed primarily therefor, namely a bus, electric trackless trolley bus, amphibious vehicle, tracked or half-tracked vehicle, golf or invalid cart, straddle carrier, motor vehicle designed primarily for off-highway use, or motor vehicle specially constructed and equipped to perform special services or functions, such as, but not limited to, a fire engine, mobile crane, wrecker, concrete mixer or mobile clinic; or

(b) any machine or other article required under Canadian tariff item 438a to be valued separately under the tariff item regularly applicable thereto.

3. The Government of Canada may designate a manufacturer not falling within the categories set out above as being entitled to the benefit of duty-free treatment in respect of the goods described in this Annex.

ANNEX B

(1) Motor vehicles for the transport of persons or articles as provided for in items 692.05 and 692.10 of the Tariff Schedules of the United States and chassis therefor, but not including electric trolley buses, three-wheeled vehicles, or trailers accompanying truck tractors, or chassis therefor.

(2) Fabricated components, not including trailers, tires, or tubes for tires, for use as original equipment in the manufacture of motor vehicles of the kinds described in paragraph (1) above.

(3) Articles of the kinds described in paragraphs (1) and (2) above include such articles whether finished or unfinished but do not include any article produced with the use of materials imported into Canada which are products of any foreign country (except materials produced within the customs territory of the United States), if the aggregate value of such imported materials when landed at the Canadian port of entry, exclusive of any landing cost and Canadian duty, was—

(a) with regard to articles of the kinds described in paragraph (1), not including chassis, more than 60 percent until January 1, 1968, and thereafter more than 50 percent of the appraised cus-

toms value of the article imported into the customs territory of the United States; and

(b) with regard to chassis of the kinds described in paragraph (1), and articles of the kinds described in paragraph (2), more than 50 percent of the appraised customs value of the article imported into the customs territory of the United States.

TEXT OF SUPPLEMENTARY EXCHANGE OF NOTES

UNITED STATES NOTE

MARCH 9, 1965.

His Excellency the Right Honorable CHARLES S. A. RITCHIE,
Ambassador of Canada.

EXCELLENCY:

I have the honor to refer to the Agreement concerning Automotive Products between the Government of the United States of America and the Government of Canada signed on January 16, 1965.

It is the understanding of my Government that automobile truck tractors are included within the articles to be accorded duty-free entry by our two Governments pursuant to Article II and the Annexes of the Agreement.

I have further the honor to request you to confirm the foregoing understanding on behalf of the Government of Canada.

Accept, Excellency, the renewed assurance of my highest consideration.

For the Secretary of State:

(S) G. GRIFFITH JOHNSON

CANADIAN NOTE

WASHINGTON, D.C., March 9, 1965.

No. 98

The Honorable DEAN RUSK,
The Secretary of State,
Washington, D.C.

SIR,

I have the honor to acknowledge receipt of your Note of March 9, 1965, which reads as follows:

"I have the honor to refer to the Agreement concerning Automotive Products between the Government of the United States of America and the Government of Canada signed on January 16, 1965.

"It is the understanding of my Government that automobile truck tractors are included within the articles to be accorded duty-free entry by our two Governments pursuant to Article II and the Annexes of the Agreement.

"I have further the honor to request you to confirm the foregoing understanding on behalf of the Government of Canada.

"Accept, Excellency, the renewed assurance of my highest consideration."

I have further the honor to confirm the foregoing understanding on behalf of the Government of Canada.

Please accept, Sir, the renewed assurances of my highest consideration.

(S) C. S. A. RITCHIE

ARTICLE-BY-ARTICLE ANALYSIS OF AGREEMENT

PREAMBLE

The preamble of the Agreement sets out the principles underlying the Agreement. The Governments state their determination to strengthen the economic relations between the two countries. They recognize that this can best be achieved through the stimulation of economic growth and the expansion of markets available to producers in both countries within the framework of their established policy of promoting multilateral trade. They further recognize that expansion of trade can best be achieved through the reduction or elimination of tariffs and other barriers to trade operating to impede or distort the full and efficient development of each country's trade and industrial potential. Finally, they recognize the important place of the automotive industry in both countries and the interests of industry, labor and consumers in sustaining high levels of efficient production and continued growth in this industry.

ARTICLE I

This article sets out the three objectives of the Agreement. The first objective is the creation of a broader market for automotive products to permit achievement of the full benefits of specialization and large-scale production. The second objective is the liberalization of United States and Canadian automotive trade in respect to tariff barriers and other factors tending to impede this trade, with a view to enabling the industries of both countries to participate in the expanding total market of the two countries on a fair and equitable basis. The third objective is the development of conditions in which market forces may operate effectively to attain the most economic pattern of investment, production and trade.

In this article, the Governments agree to avoid actions which would frustrate the achievement of these objectives.

ARTICLE II

Paragraph (a) requires the Canadian Government to accord duty-free treatment to imports of the products of the United States described in Annex A. This treatment is required to be given no later than the entry into force of the United States legislation according the same treatment to imports of the products of Canada described in Annex B. In fact, the Canadian Government began giving duty-free treatment to imports of the United States products on January 18, 1965.

Paragraph (b) requires the U.S. Government to seek, in this session of the Congress, enactment of legislation which would authorize the President to proclaim the duty-free treatment of imports of the products of Canada described in Annex B. The authority sought is

to include provisions permitting the implementation of such duty-free treatment retroactively to the earliest date administratively possible following the date upon which the Canadian Government has accorded duty-free treatment. As mentioned above, the Canadian Government accorded duty-free treatment on January 18, 1965. The U.S. Government is obligated to accord duty-free treatment promptly after the entry into force of such legislation, if enacted.

ARTICLE III

This article permits either Government to take action consistent with its obligations under Part II (arts. III through XXIII) of the General Agreement on Tariffs and Trade. Such actions include antidumping duties, escape clause measures, and national security actions.

ARTICLE IV

Paragraph (a) is a general consultation provision enabling either Government to request consultations on any matter relating to the Agreement.

Paragraph (b), without limiting paragraph (a), recognizes that special consultations may be needed with respect to problems of U.S. automotive producers which do not at present have facilities in Canada. Paragraph 3 of Annex A recognizes that Canada may designate such a manufacturer as being eligible for the benefits of the duty-free treatment with regard to the products of the United States described in Annex A.

Paragraph (b) also recognizes that special consultations may be needed with respect to the implications for the operation of the Agreement of new automotive producers becoming established in Canada. This provision is intended to provide a safeguard against firms becoming established in Canada without being required to undertake significant production in Canada and thus becoming a conduit enabling third-country products to secure duty-free entry into the United States. The Canadian content requirement for duty-free entry into the United States embodied in paragraph 3 of Annex B also provides a safeguard against this occurrence.

Paragraph (c) provides for a comprehensive review no later than January 1, 1968, of the progress toward achieving the three objectives stated in Article I. During this review, the Governments will consider such further steps as may be necessary or desirable for the full achievement of these objectives. This paragraph is intended to provide for future possible arrangements and other matters which may arise after the 3-year transitional period has expired.

ARTICLE V

This article provides that access to United States and Canadian markets of the kind provided by the Agreement may by agreement be accorded on similar terms to other countries. This permits either country or both countries to conclude similar agreements with third countries.

ARTICLE VI

This article provides for the provisional entry into force of the Agreement on the date of signature and its definitive entry into force when notes are exchanged between the two Governments giving notice that the appropriate action in their respective legislatures has been completed. Appropriate action by the United States would be enactment of the proposed Automotive Products Trade Act of 1965. Appropriate action for the Canadian Government would be consideration of the Agreement by the Canadian Parliament.

ARTICLE VII

This article establishes an unlimited duration for the Agreement. However, each Government is given the right to terminate the Agreement, effective after 12 months' written notice to the other Government of an intention to terminate.

ANNEX A

Paragraph 1 describes the products to be accorded duty-free treatment by the Canadian Government. A supplementary exchange of notes dated March 9, 1965, confirmed that automobile truck tractors are included among these products.

Paragraph 2 defines certain terms used in the description of the products to be accorded duty-free treatment and in other definitions.

Paragraph 3 relates to the designation of manufacturers not coming within the definition of "manufacturer" (as that term is defined in par. 2) as being eligible for the benefits of duty-free treatment.

ANNEX B

Paragraph (1) describes the motor vehicles and chassis to be accorded duty-free treatment by the Government of the United States. A supplementary exchange of notes dated March 9, 1965, confirmed that automobile truck tractors are included among these products.

Paragraph (2) describes the other articles to be accorded duty-free treatment under the Agreement.

Paragraph (3) makes clear that the articles described in paragraphs (1) and (2) include articles whether unfinished or in finished state but do not include articles which have less than 50 percent Canadian value added (40 percent for vehicles and chassis described in par. (1) until January 1, 1968).

**TEXT OF CANADIAN ORDERS IN COUNCIL CONCERNING
AUTOMOTIVE PRODUCTS****ORDER IN COUNCIL ESTABLISHING REBATE PLAN P.C. 1963-1/1544****At the Government House at Ottawa
Tuesday, the 22nd day of October 1963****PRESENT:****His Excellency, the GOVERNOR GENERAL IN COUNCIL:**

His Excellency the Governor General in Council, pursuant to Section 22 of the Financial Administration Act, is pleased hereby to order as follows, in accordance with the following minute of the Treasury Board:

**T.B. 617086
FINANCE
INDUSTRY**

The Board recommends that Your Excellency in Council be pleased to order as follows:

ORDER

1. (1) In this Order,
 - (a) "designated period" means any following period, namely:
 - (i) November 1, 1963 to October 31, 1964, (ii) November 1, 1964 to October 31, 1965, or (iii) November 1, 1965 to October 31, 1966;
 - (b) "motor vehicle" means vehicles that, if imported into Canada, would be classified under any of Tariff items 410a(iii), 424 and 438a;
 - (c) "motor vehicle parts" means parts that, if imported into Canada, would be classified under any of Tariff items 410a(iii), 424 and 438a to 438u inclusive, and includes the following motor vehicle parts and accessories, namely, ball and roller bearings, radios, heaters, die castings of zinc, electric storage batteries, and parts of which the component material of chief value is wood or rubber, but does not include tires or tubes.
- (2) A reference in this Order to the value for Customs duty purposes of any goods shall be construed as a reference to the value for Customs duty purposes of such of those goods as were subject to Customs duties specified in Schedule A to the Customs Tariff.
2. All Customs duties specified in Schedule A to the Customs Tariff payable in respect of the following goods, namely:
 - (a) motor vehicles imported or taken out of warehouse by a motor vehicle manufacturer in Canada during any designated period, and
 - (b) motor vehicle parts for use as original equipment for motor vehicles, imported or taken out of warehouse by or on behalf of such manufacturer during that designated period,are remitted to the extent of the duties so payable on such part of the value for Customs duty purposes of those goods as does not exceed the amount (hereinafter referred to as the "excess value") by which

(c) the Canadian content value, as established to the satisfaction of the Minister of National Revenue, of motor vehicles and motor vehicle parts exported by such manufacturer during that designated period,

exceeds

(d) the Canadian content value, as established to the satisfaction of the Minister of National Revenue, of motor vehicles and motor vehicle parts exported by such manufacturer during the period November 1, 1961 to October 31, 1962,

and where the excess value exceeds the value for Customs duty purposes of the goods so imported or taken out of warehouse during that designated period, the amount of such excess may be added to the Canadian content value, as established to the satisfaction of the Minister of National Revenue, of motor vehicles and motor vehicle parts exported by such manufacturer during the immediately preceding period of twelve months in determining the amount of Customs duties specified in Schedule A to the Customs Tariff that may be remitted under this Order or under Order in Council P.C. 1962-1/1536 in respect of goods imported or taken out of warehouse during that preceding period.

3. For the purposes of this Order,

(a) a manufacturer is a motor vehicle manufacturer in Canada during any relevant period only if such manufacturer produces in Canada during that period motor vehicles the total number of which so produced is not less than forty percent of the total number of motor vehicles sold by such manufacturer during that period;

(b) motor vehicle parts that are produced in Canada by a parts manufacturer and exported and that can be identified, as being for use in the manufacture, repair or maintenance of motor vehicles produced by an affiliate outside Canada of a motor vehicle manufacturer in Canada may be considered to have been exported by such motor vehicle manufacturer; and

(c) motor vehicle parts exported for incorporation into motor vehicles to be shipped to Canada shall be deemed not to have been exported if the value of such parts may be taken into account for Customs duty remission purposes under any Order other than this Order upon the subsequent importation of such vehicles.

ORDER IN COUNCIL AMENDING REBATE PLAN P.C. 1964-1506

At the Government House at Ottawa
Thursday, the 24th day of September 1964

PRESENT:

HIS EXCELLENCY THE GOVERNOR GENERAL IN COUNCIL:

His Excellency the Governor General in Council, on the recommendation of the Minister of Industry, is pleased hereby to order as follows:

1. Section 3 of Order in Council P.C. 1963-1/1544 of 22d October 1963, is amended by deleting the word "and" after paragraph (b)

thereof, by adding the word "and" after paragraph (c) thereof and by adding thereto the following paragraph:

"(d) motor vehicles and motor vehicle parts exported under any United States Military prime or subcontracts entered into after August 31, 1964, shall be deemed not to have been exported."

ORDER IN COUNCIL REPEALING REBATE PLAN P.C. 1965-1/98

At the Government House at Ottawa
Saturday, the 16th day of January 1965

PRESENT:

His Excellency the GOVERNOR GENERAL IN COUNCIL:

His Excellency the Governor General in Council, pursuant to Section 22 of the Financial Administration Act, is pleased hereby to order as follows, in accordance with the following minute of the Treasury Board:

T.B. 635460
FINANCE

The Treasury Board recommends that your Excellency in Council, pursuant to Section 22 of the Financial Administration Act, be pleased to amend Order in Council P.C. 1963-1/1544, as amended, in accordance with the Schedule hereto.

SCHEDULE

1. Paragraph (a) of subsection (1) of section 1 of Order in Council P.C. 1963-1/1544 is revoked and the following substituted therefor:

"(a) 'designated period' means any following period, namely:
(i) November 1, 1963 to October 3, 1964, or
(ii) November 1, 1964 to January 17, 1965;"

2. (1) Paragraph (a) of section 2 of the said Order is revoked and the following substituted therefor:

"(a) motor vehicles imported or taken out of warehouse by a motor vehicle manufacturer in Canada during the designated period November 1, 1963 to October 31, 1964, and"

(2) Section 2 of the said Order is further amended by adding thereto the following subsection:

"(2) All Customs duties specified in Schedule A to the *Customs Tariff* payable in respect of the following goods, namely:

"(a) motor vehicles imported or taken out of warehouse by a motor vehicle manufacturer in Canada during the designated period November 1, 1964 to January 17, 1965, and

"(b) motor vehicle parts for use as original equipment for motor vehicles, imported or taken out of warehouse by or on behalf of such manufacturer during that designated period. are remitted to the extent of the duties so payable on such part of the value for Customs duty purposes of those goods as does not exceed the amount (hereinafter referred to as the 'excess value') by which

"(c) the Canadian content value, as established to the satisfaction of the Minister of National Revenue, of motor vehicles and motor vehicle parts exported by such manufacturer during that designated period,

-exceeds

"(d) 78/365 of the Canadian content value, as established to the satisfaction of the Minister of National Revenue, of motor vehicles and motor vehicle parts exported by such manufacturer during the period November 1, 1961 to October 31, 1962, and where the excess value exceeds the value for Customs duty purposes of the goods so imported or taken out of warehouse during that designated period, the amount of such excess may be added to the Canadian content value, as established to the satisfaction of the Minister of National Revenue, of motor vehicles and motor vehicle parts exported by such manufacturer during the immediately preceding period of twelve months in determining the amount of Customs duties specified in Schedule A to the *Customs Tariff* that may be remitted under this Order or under Order in Council P.C. 1962-1/1536 in respect of goods imported or taken out of warehouse during that preceding period."

ORDER IN COUNCIL ESTABLISHING DUTY-FREE TREATMENT P.C. 1965-99

At the Government House at Ottawa
Saturday, the 16th day of January 1965

PRESENT:

His Excellency the GOVERNOR GENERAL IN COUNCIL:

WHEREAS the Acting Minister of Finance and the Minister of Industry, have reported as follows:

1. That an agreement has been entered into with the United States with respect to the reduction of duties by Canada and the United States on importations of certain automobiles and other vehicles and parts for use as original equipment in certain automobiles and other vehicles; and

2. That it is deemed reasonable by way of compensation for concessions granted by the United States and in order to give effect to the agreement in Canada, to reduce the Customs duties on certain automobiles and other vehicles and parts for use as original equipment in certain automobiles and other vehicles.

THEREFORE, His Excellency the Governor General in Council, on the recommendation of the Acting Minister of Finance and the Minister of Industry, is pleased hereby, pursuant to the Customs Tariff,

(a) to deem reasonable by way of compensation for concessions granted by the United States the reduction of duties provided for in, and

(b) to make, effective the 18th day of January 1965, the annexed Motor Vehicles Tariff Order, 1965, the provisions of which may be cited as "Tariff Item 950".

MOTOR VEHICLES TARIFF ORDER 1965

1. The rates of Customs duties on the following goods imported into Canada on or after January 18, 1965, from any country entitled to the benefit of the British Preferential Tariff or Most-Favoured-Nation Tariff, for which a special entry in such form and manner as is prescribed by the Minister has been made, are reduced to the rate set out as follows opposite the description of those goods:

<i>Description of goods</i>	<i>Rate</i>
(1) Automobiles, when imported by a manufacturer of automobiles.	Free.
(2) All parts, and accessories and parts thereof, except tires and tubes, when imported for use as original equipment in automobiles to be produced in Canada by a manufacturer of automobiles.	Free.
(3) Buses, when imported by a manufacturer of buses.	Free.
(4) All parts, and accessories and parts thereof, except tires and tubes, when imported for use as original equipment in buses to be produced in Canada by a manufacturer of buses.	Free.
(5) Specified commercial vehicles, when imported by a manufacturer of specified commercial vehicles.	Free.
(6) All parts, and accessories and parts thereof, except tires, tubes and machines or other articles required under Tariff Item 438a to be valued separately under the tariff items regularly applicable thereto, when imported for use as original equipment in specified commercial vehicles to be produced in Canada by a manufacturer of specified commercial vehicles.	

2. (1) In this Order,

(a) "automobile" means a four-wheeled passenger automobile having a seating capacity for not more than ten persons;

(b) "base year" means the period of twelve months commencing on the 1st day of August 1963 and ending on the 31st day of July 1964;

(c) "bus" means a passenger motor vehicle having a seating capacity for more than 10 persons or a chassis therefor, but does not include any following vehicle or chassis therefor, namely an electric trackless trolley bus, amphibious vehicle, tracked or half-tracked vehicle or motor vehicle designed primarily for off-highway use;

(d) "Canadian value added" has the meaning assigned by regulations made under section 273 of the *Customs Act*;

(e) "manufacturer" of vehicles of any following class, namely automobiles, buses or specified commercial vehicles, means, in relation to any importation of goods in respect of which the description is relevant, a manufacturer that

(i) produced vehicles of that class in Canada in each of the four consecutive three months' periods in the base year, and

(ii) produced vehicles of that class in Canada in the period of twelve months ending on the 31st day of July in which the importation is made,

(A) the ratio of the net sales value of which to the net sales value of all vehicles of that class sold for consumption in Canada by the manufacturer in that period is equal to or higher than the ratio of the net sales value of all vehicles of that class produced in Canada by the manufacturer in the base year to the net sales value of all vehicles of that class sold for consumption in Canada

by the manufacturer in the base year, and is not in any case lower than seventy-five to one hundred, and

(B) the Canadian value added of which is equal to or greater than the Canadian value added of all vehicles of that class produced in Canada by the manufacturer in the base year;

(f) "net sales value" has the meaning assigned by regulations made under section 273 of the *Customs Act*; and

(g) "specified commercial vehicle" means a motor truck, ambulance or hearse, or a chassis therefor, but does not include any following vehicle or chassis therefor, namely a bus, electric trackless trolley bus, fire truck, amphibious vehicle, tracked or half-tracked vehicle, golf or invalid cart, straddle carrier or motor vehicle designed primarily for off-highway use, or any machine or other article required under Tariff Item 438a to be valued separately under the tariff item regularly applicable thereto.

(2) For the purposes of paragraph (e) of subsection (1) of this section, in computing the net sales value of all vehicles of any class described in that subsection that were sold for consumption in Canada by a manufacturer

(a) in the period of twelve months ending on the 31st day of July, 1965, there shall be deducted an amount equal to one and one-half times the net sales value of all vehicles of that class so sold by the manufacturer in that period that were imported into Canada or taken out of warehouse for consumption on or after January 18, 1965, and for which no special entry as described in section 1 of this Order was made; and

(b) in any subsequent period of twelve months ending on the 31st day of July, there shall be deducted an amount equal to the net sales value of all vehicles of that class so sold by the manufacturer in that subsequent period that were imported into Canada or taken out of warehouse for consumption on or after January 18, 1965, and for which no special entry as described in section 1 of this Order was made.

(3) Where a manufacturer of vehicles of any following class, namely automobiles, buses or specified commercial vehicles has, by notice to the Minister in writing accompanied by the consent in writing of any other person, designated such other person as a person associated with the manufacturer in the production of vehicles of that class in Canada in the base year and in any subsequent period of twelve months ending on the 31st day of July specified in the notice, which notice has been communicated to the Minister on or before a day not later than the thirtieth day after the commencement of the period so specified or, in the case of the period ending on the 31st day of July, 1965, after January 18, 1965, the person so designated shall, with respect to vehicles of that class, be deemed for all purposes of this Order in the base year and in the period so specified, not to be a separate person but to be one and the same person as the manufacturer.

ORDER IN COUNCIL PROVIDING REGULATIONS CONCERNING DUTY-FREE TREATMENT P.C. 1965-100

At the Government House at Ottawa
Saturday, the 16th day of January 1965

PRESENT:

HIS EXCELLENCY THE GOVERNOR GENERAL IN COUNCIL:

His Excellency the Governor General in Council, on the recommendation of the Minister of National Revenue, pursuant to paragraph (t) of section 273 of the Customs Act, is pleased hereby to make the annexed Regulations Respecting the Entry of Motor Vehicles under the Motor Vehicles Tariff Order, 1965, effective 18th January, 1965.

REGULATIONS RESPECTING THE ENTRY OF MOTOR VEHICLES UNDER THE
MOTOR VEHICLES TARIFF ORDER, 1965*Short title*

1. These Regulations may be cited as the *Tariff Item 950 Regulations*.

Interpretation

2. In these Regulations all words and expressions have the meanings assigned to them by the *Motor Vehicles Tariff Order, 1965*, and for the purposes of these Regulations,

(a) "Canadian value added" means, in respect of vehicles of any following class, namely automobiles, buses or specified commercial vehicles, that are produced in Canada in any twelve month period ending the 31st day of July, the aggregate of the following costs to the manufacturer of producing all vehicles of that class that are produced in Canada by the manufacturer in that period and the following depreciation and capital allowances for that period:

(i) the cost of parts produced in Canada, and the cost of materials to the extent that they are of Canadian origin, that are incorporated in the vehicles in the factory of the manufacturer in Canada, but not including parts produced in Canada, or materials to the extent that they are of Canadian origin, that have been exported from Canada and subsequently imported into Canada as parts or materials,

(ii) transportation costs, including insurance charges, incurred in transporting parts and materials from a Canadian supplier or frontier port of entry to the factory of the manufacturer in Canada for incorporation in the vehicles, to the extent that such costs are not included under subparagraph (i),

(iii) notwithstanding subparagraph (i), the cost of the iron, steel and aluminum content of parts produced outside Canada for incorporation into the vehicles, if the iron, steel or aluminum was poured in Canada, to the extent that such cost does not exceed the amount the manufacturer was allowed in respect of such materials for vehicles of that class for the base

year under the *Tariff Item 438C Regulations* or *Tariff Item 438(d) and 438(e) Regulations*,

(iv) such part of the following costs as are reasonably attributable to the production of the vehicles:

(A) wages paid for direct production labour in Canada,

(B) wages paid for indirect production and nonproduction labour in Canada,

(C) materials used in the production operation but not incorporated in the final product,

(D) light, heat, power and water,

(E) workmen's compensation, unemployment insurance and group insurance premiums, pension contributions and similar expenses incurred in respect of labour referred to in clauses (A) and (B),

(F) taxes on land and buildings in Canada,

(G) fire and other insurance premiums relative to production inventories and the production plant and its equipment, paid to a company authorized by the laws of Canada or any province to carry on business in Canada or such province,

(H) rent for factory premises paid to a beneficial owner in Canada,

(I) maintenance and repairs to buildings, machinery and equipment used for production purposes that is executed in Canada,

(J) tools, dies, jigs, fixtures and other similar plant equipment items of a nonpermanent character that have been manufactured in Canada,

(K) engineering services, experimental work and product development work executed in Canada, and

(L) miscellaneous factory expenses,

(v) administrative and general expenses incurred in Canada that are reasonably attributable to the production of the vehicles,

(vi) depreciation in respect of production machinery and permanent plant equipment and the installation costs of such machinery and equipment as authorized by section 4, to the extent that such depreciation is reasonably attributable to the production of the vehicles, and

(vii) a capital allowance not exceeding 5 percent of the total capital outlay incurred by the manufacturer for land and buildings in Canada owned by the manufacturer and used by the manufacturer in the production of vehicles or parts (not including any capital outlay incurred by a person deemed by subsection (3) of section 2 of the Order in the period not to be a separate person but to be one and the same person as the manufacturer) to the extent that such allowance is reasonably attributable to the production of the vehicles;

(b) "Canadian value added" means, in respect of parts, the aggregate of those costs of producing the parts and those depreciation and capital allowances that would be included in the

calculation of Canadian value added if the parts were vehicles;
(c) "net sales value" means, in respect of any vehicle, the selling price received by the manufacturer for the vehicle, including costs of transporting the vehicle in Canada but not including any other costs of transportation or delivery charges, minus

(i) federal sales and excise taxes paid in respect of the vehicle and any parts thereof, and

(ii) rebates, commissions, discounts and other allowances granted by the manufacturer subsequent to the sale in respect of the vehicle;

(d) "Order" means the *Motor Vehicles Tariff Order, 1965*; and

(e) "parts" includes accessories for vehicles and parts of such accessories, but does not include parts or accessories or parts thereof for repair or replacement purposes.

3. (1) For the purposes of subparagraph (i) of paragraph (a) of section 2,

(a) the cost of parts and materials acquired by a manufacturer from its parent corporation, or from any subsidiary wholly-owned corporation or subsidiary controlled corporation of the manufacturer or of its parent corporation shall be deemed to be the Canadian value added of the parts and the cost to such corporation of the materials to the extent that they are of Canadian origin;

(b) the cost of parts and materials acquired by a manufacturer from a supplier other than a corporation described in paragraph (a) shall be deemed to be the selling price of the parts and materials to the manufacturer less the duty paid value of imported goods used in the production thereof and foreign charges applicable thereto;

(c) subject to paragraph (d), iron, steel and aluminum that has been poured in Canada shall be deemed to be wholly of Canadian origin; and

(d) parts acquired by a manufacturer shall be deemed to be produced outside Canada and materials acquired by a manufacturer shall be deemed to be of non-Canadian origin, except any such parts and materials acquired from a supplier in Canada in respect of which the manufacturer has obtained from the supplier a certificate in form prescribed by the Minister stating

(i) in the case of parts and materials acquired by the manufacturer from a corporation described in paragraph (a), the Canadian value added of the parts and the cost to that corporation of the materials to the extent that they are of Canadian origin, and

(ii) in the case of parts and materials acquired by the manufacturer from a supplier other than a corporation described in paragraph (a), the cost thereof as calculated in accordance with paragraph (b).

(2) In subsection (1),

(a) "manufacturer" does not include a person deemed by subsection (3) of section 2 of the Order not to be a separate person but to be one and the same person as the manufacturer; and

(b) "subsidiary wholly-owned corporation" and "subsidiary controlled corporation" have the meanings assigned to those expressions by the *Income Tax Act*.

4. For the purpose of subparagraph (vi) of paragraph (a) of section 2, the amount of depreciation in respect of production machinery and permanent plant equipment for any twelve month period ending on the 31st day of July is,

(a) in the case of machinery and equipment acquired before August 1, 1964 and within the one hundred and twenty months ending on the last day of the period, ten per cent of either

(i) the aggregate of

(A) the capital cost to the manufacturer of any such machinery and equipment that was manufactured in Canada, and

(B) the part of the capital cost to the manufacturer of any such machinery and equipment that was manufactured outside Canada that is reasonably attributable to the cost of installing that machinery and equipment,

minus

(C) the part of the cost referred to in clauses (A) and (B) that was incurred in respect of machinery and equipment that has been disposed of before the beginning of the period, or

(ii) one-half of

(A) the capital cost to the manufacturer of all such machinery and equipment whether manufactured in Canada or elsewhere,

minus

(B) the part of the cost referred to in clause (A) that was incurred in respect of machinery and equipment that has been disposed of before the beginning of the period; and

(b) in the case of machinery and equipment acquired after July 31, 1964 and within the one hundred and twenty months ending on the last day of the period, ten percent of

(i) the capital cost to the manufacturer of any such machinery and equipment that was manufactured in Canada. and

(ii) the part of the capital cost to the manufacturer of any such machinery and equipment that was manufactured outside Canada that is attributable to the cost of installing that machinery and equipment,

minus

(iii) the part of the costs referred to in subparagraphs (i) and (ii) that was incurred in respect of machinery and equipment that has been disposed of before the beginning of the period.

Declaration

5. Every manufacturer that intends to enter vehicles under Tariff Item 950 during any twelve month period ending on the 31st day of July shall, before making its first entry during the period, send to the

Minister a declaration in the form set out in the Schedule in respect of each class of vehicle it intends so to enter.

Reports

6. Every manufacturer that imports vehicles pursuant to the Order shall submit to the Minister and the Minister of Industry every three months commencing April 1, 1965, such reports as may be required by those Ministers respecting the production and sale by the manufacturer of vehicles and parts thereof.

SCHEDULE—DECLARATION OF MANUFACTURER UNDER TARIFF ITEM 950

Declaration

I, _____ of _____
place province

Canada, do hereby declare that I am the _____
Pres. Gen. Mgr. Controller

of _____ of _____
name of company place province

Canada, a manufacturer of vehicles of the class referred to in paragraph ____ of Tariff Item 950 and that it is the intention of our company to qualify for entry of vehicles referred to in that paragraph under that Tariff Item.

I further declare that

(a) our company produced vehicles of that class in Canada during each of the four consecutive periods in the base year;

(b) our company intends to produce in Canada in the period August 1, 196-, to July 31, 196-, vehicles of that class;

(c) the ratio of the net sales value of the vehicles of that class that are to be produced in Canada by our company to the total net sales value of all vehicles of that class to be sold for consumption in Canada by our company in the period August 1, 196-, to July 31, 196-, will be equal to or higher than the ratio achieved by our company in the base year; and

(d) the vehicles of that class that are to be produced in Canada in the period August 1, 196- to July 31, 196-, will have a Canadian value added that is equal to or greater than the Canadian value added of all vehicles of that class that were produced by our company in Canada during the base year.

Dated at _____ this ____ day of _____ 19—

Witness: _____ (signed) _____

BACKGROUND INFORMATION ON AGREEMENT

The United States and Canada have arrived at an agreement which provides for the elimination of customs duties by both countries on motor vehicles (passenger cars, trucks and buses) and original parts for production of new vehicles. This paper presents background on the structure of the automotive industry in the two countries, and a description of the benefits to the two countries which are foreseen from the agreement.

I

The Canadian market for automobiles is a natural extension of the U.S. market, the two parts forming what is in most respects a single North American market. Canadian consumers overwhelmingly choose automobiles of American design and make (91 percent of all cars purchased in Canada in 1963 were American models.) They prefer and they get a range of body types and models almost as wide as is available to American consumers.

Production in Canada is almost wholly in the hands of subsidiaries of the United States motor vehicle manufacturers: General Motors, Ford, Chrysler, American Motors, Studebaker, International Harvester, Kaiser, Jeep, and others. The value of Canadian automotive output in 1963 was \$1.4 billion, the bulk of which was accounted for by United States subsidiaries.

Canada is now the world's sixth largest consumer of automobiles and other motor vehicles. Sales in 1963 amounted to about 600,000 units. In 1964, total sales probably exceeded 700,000 units. The Canadian market is growing rapidly, more rapidly than in the United States, and is likely to continue to do so since the number of automobiles in Canada per capita is relatively smaller than in the United States, and since Canadian incomes are growing at a faster rate than American incomes.

Canada is our major export market for automotive products. In 1963 the United States sold to Canada cars, trucks, and, most important, automobile parts valued at \$560 million. In the first eight months of 1964 our exports were about \$455 million, an increase of almost \$90 million over the same period of 1963.

We are importing from Canada a smaller but growing volume of automotive equipment. Imports in 1963 were \$33 million. In the first eight months of 1964, imports were \$46 million, as compared with \$16 million in 1963.

II

Although Canada produces and consumes the same automobiles under much the same conditions as does the United States, costs and prices are significantly higher than in the United States. This is so even in the face of lower Canadian wages and certain other Canadian cost advantages.

A principal reason is the lower volume of Canadian output. In an industry in which economies of scale are very important—that is, high costs of capital plant and equipment need to be spread over large numbers of units of output—Canadian manufacturers typically operate at levels too low to permit them to get the full advantage of such

economies. For example, the Ford Motor Co now makes some 60 different models of five distinct passenger car lines at its assembly plant in Canada. Just across the river on the U.S. side, Ford's great River Rouge assembly plant produces only three models of the Mustang line. Similar disparities exist for the other producers; in only a few auto parts and in none of the vehicles is the volume of Canadian output large enough to bring costs down to American levels.

This relatively high cost industry—and the word “relatively” should be emphasized because Canadian plants are for the most part modern and well-equipped—is protected by customs tariffs and by the so-called Commonwealth content requirement. Tariffs on finished vehicles are 17½ percent and range from duty-free up to 25 percent on component parts. The content requirement calls for up to 60 percent of Canadian parts and labor and other costs in the finished automobile. These restrictive devices have helped to screen producers located in Canada from U.S. competition. They have served to maintain a Canadian automotive industry in being but they also have worked to perpetuate uneconomic production runs, higher costs in Canada, higher priced cars for Canadian consumers, and a smaller total North American market.

III

So long as there are tariff and other barriers to the automotive trade between Canada and the United States, there is no possibility of achieving the full potential of a North American automotive industry and automotive market. Our tariff duties are considerably lower than Canadian duties, at 6½ percent on vehicles and 8½ percent on most parts, but they of course also have been a burden on the flow of trade in the automotive sector. Together with the higher Canadian tariffs they have helped to shape a pattern of trade and production that falls far short of the efficient pattern that could otherwise be developed.

With tariffs and other restrictive devices eliminated, an American motor company having a Canadian subsidiary will be able gradually to concentrate in Canada on a limited number of models—and on those component parts which could be most efficiently produced in Canada—while supplying the Canadian customer with a full range of other models from American plants. Canadian management naturally will work toward getting high volume production of specific components and models in Canada. The result, over time, will be to create a rationalized and integrated North American industry. With lower costs and prices, the Canadian market for automobiles will grow faster than before. The total of North American production and the total of United States-Canada trade similarly can be expected to expand.

IV

Canadian and American officials have worked together over several months to see whether the abstract concept of a North American market and industry, unimpeded by tariffs and other barriers, could be given substance and reality. Their talks took place against the background of serious differences between the two countries over a Canadian program, initiated in November 1962 and extended a year later, under which the automobile companies operating in Canada

were allowed to have the benefit of tariff-free treatment on certain automobile parts, through the technique of tariff rebates, in return for increased exports of automobiles or parts. This Canadian program was challenged by interested parties in the United States as being contrary to a section of our basic Tariff Act concerned with foreign "bounties or grants" on exports to the United States. If the Canadian plan were judged to fit the statutory definition of a bounty or grant, then the Secretary of the Treasury would be required to assess countervailing import duties on Canadian automotive equipment entering the United States so as to compensate for the export incentive being offered by Canada.

The applicability of countervailing duties was, of course, a legal question. Nevertheless, this issue and the Canadian program from which it derived has overhung the future of United States-Canadian automobile trade. If the differences between the United States and Canada were to have ended in trade retaliation and counter-retaliation, the consequences for North American commerce and commercial relations could have been harmful for both countries and, in particular, for the North American automobile industry.

This situation gave urgency, therefore, to the exploration of possibilities for the constructive alternative of a mutual attack on Canadian and United States barriers to trade in the automotive sector. The technical and economic problems involved were given extensive and searching examination by the two Governments. Various alternatives were considered and these were discussed with representatives of industry and labor.

V

The negotiators on both sides found that the mutual advantage of both countries lay in taking a long step toward freeing United States-Canadian trade in motor vehicles and original parts for the production of new vehicles. Terms for achieving this end were agreed on and the overall agreement to this end has now been concluded.

The two Governments agree to seek the early achievement of a broader market for automotive products within which the full benefits of specialization and large-scale production can be achieved. They agree also to the early liberalization of automotive trade in respect of tariff barriers and other factors tending to impede it, so that the industries of both countries may participate on a fair and equal basis in the expanding total market in North America. And they agree to develop conditions in which market forces may operate effectively to attain the most economic volume of investment, production, and trade. Each government will avoid actions which would frustrate the achievement of these objectives.

Canada, on its part agrees to award duty-free treatment to automobiles and parts for original construction imported by Canadian vehicle manufacturers. Canada is bringing its measures into effect immediately by an order in council.

The U.S. Government will ask the Congress during its current session to enact legislation authorizing duty-free import into the United States of Canadian automobiles and parts for original construction—to be retroactive to the earliest date administratively possible following the date when Canada removes its duties.

At the request of either Government, the parties will consult concerning the application of the agreement to new automotive producers in Canada and for other purposes. A comprehensive review will be made of progress toward the objectives of the agreement no later than January 1, 1968.

The parties may agree to give other countries similar access to their markets. The agreement will continue indefinitely but may be ended by either party on 12 months written notice. The agreement will come into provisional effect on the date of signature and into definitive effect after action is completed in the legislatures of both countries.

VI

The new agreement not only provides a solution for a difficult existing problem. It is also a positive development for the North American automobile industry and for United States-Canadian automobile trade. It has been warmly welcomed by the automobile companies on both sides of the border.

Under the agreement, tariffs will be removed. The effects of the old Canadian content requirement will disappear as the industry grows. As a result, North American production will become substantially more efficient. Both the United States and Canada will benefit from increased consumption of automobiles and from expanded trade, as efficiency increases. Employment in both countries can be expected to increase and the earnings of the Canadian and American automobile companies can be expected to grow.

The Canadian sector of the industry at present is relatively much weaker than the American and special arrangements have been made to cover the transitional period of interindustry rationalization. Under Canadian tariff procedures duty-free treatment will be accorded to manufacturers maintaining their assembly operations at existing rates, subject to market developments. Customs duties on replacement, or services, parts will not be reduced under the agreement.

It is anticipated that the removal of duties and other barriers will result in a substantially increased market above the increase which would otherwise have developed. In the light of this widening opportunity, Canadian companies have made plans for an expansion of their production and have assured the Canadian Government that Canadian production will fill a substantial part of the increased demand.

VII

Apart from the specific benefits expected to accrue to automobile production and trade, the U.S. Government considers this step toward freer trade to be in a highly desirable direction so far as the broad United States-Canadian commercial relationship is concerned. The United States and Canada are one another's largest markets, by a wide margin over all others. The economic ties between the two countries are very close. Both countries have an interest in practical measures to make these ties as mutually beneficial as possible. The present agreement will contribute to this end and to the good relations that have historically marked the association between two great and friendly nations.

NOTE: The following summaries, for the most part, were presented to the committee prior to the conduct of the hearings, at the request of the committee, so that they might be available for the members of the committee prior to the actual hearing. They are being included at this point for information purposes.

SUMMARY OF STATEMENTS BY PUBLIC WITNESSES ON THE SUBJECT OF H.R. 6960, THE AUTOMOTIVE PRO- DUCTS TRADE ACT OF 1965, APRIL 27, 28, AND 29, 1965

**WITNESS: HON. RICHARD D. McCARTHY, MEMBER OF
CONGRESS (NEW YORK)**

SUMMARY OF STATEMENT

Congressman McCarthy will express approval of the agreement. With regard to U.S. independent auto parts manufacturers, he will express concern of a problem typical of any independent manufacturer who has built markets in Canada only to find that competitors undersell products by the amount of the tariff. He will submit for the record a letter on behalf of the T. Whiting Manufacturing, Inc., giving examples of the problem mentioned.

**WITNESS: GENERAL MOTORS CORP., JAMES M. ROCHE,
EXECUTIVE VICE PRESIDENT**

SUMMARY OF STATEMENT

I. INTRODUCTION

II. GENERAL MOTORS BACKGROUND

General Motors operations in Canada have a long history. General Motors' volume cars and trucks are built there, along with many parts and components. The Canadian subsidiaries import other parts and components from General Motors plants and other suppliers in the United States. They also purchase from Canadian suppliers. Low volume vehicles are imported from the United States. Production in Canada has grown substantially, and factory sales reached 293,000 units in 1964.

III. CANADIAN AUTOMOTIVE INDUSTRY BACKGROUND

By 1970 Canadian automotive sales are expected to grow by 33 percent over the 1962-64 average compared with a growth of about half this rate for the United States. General Motors, along with the rest of the industry, is expanding in anticipation of this growth. U.S. production will benefit from this growth.

Because of its smaller size the Canadian industry has always been protected by tariffs and/or content requirements and has not been able to specialize its production facilities. The result has been higher costs and higher prices. Duty-free imports of certain components have

helped hold costs down, and the Canadian consumer, subject to the same stimuli as the U.S. consumer, has been able to satisfy his desire for a wide variety of product.

How the U.S. industry benefits from the Canadian market is indicated by the fact that in 1964 General Motors' Canadian subsidiaries imported \$241 million of automotive components and product, of which \$46 million was imported from U.S. suppliers which are not General Motors divisions.

IV. THE CURRENT PROBLEM

In recent years Canada has had an unfavorable current account balance originating in United States-Canadian trade and particularly in the automotive sector. The transmission duty remission plan was introduced in November 1962 and was broadened a year later to cover all imported vehicles and most parts and accessories. General Motors was able to accommodate its operations to these changes. A U.S. parts manufacturer, however, petitioned for the imposition of countervailing duties, and the two Governments began discussions looking to a new arrangement.

V. THE GENERAL MOTORS POSITION

The General Motors position was set forth in a June 19, 1964, letter to the Commissioner of Customs. It made these points:

1. That the growth of the Canadian industry was beneficial to both countries.
2. That U.S. participation through exports to Canada has helped both countries.
3. That the value of exports to Canada has been substantial and in 1963 those of General Motors alone accounted for some 16,000 jobs.
4. That the Canadian practice of permitting certain duty-free imports was beneficial to both countries.
5. That the remission plan was a constructive measure from the standpoint of both countries.
6. That U.S. exports to Canada could have been expected to continue to increase under the plan.
7. That Canada could take steps that would be much more disadvantageous to the U.S. industry.

VI. THE AUTOMOTIVE TRADE AGREEMENT

The solution arrived at, the proposed trade agreement, while not free of difficulties, is a workable plan in the opinion of General Motors. General Motors had no role in its development.

Based upon normal growth, the annual cost of production in the U.S. automotive industry should reach \$17.5 billion by 1970, compared with an average of \$15.1 billion for the past 3 years. The trade agreement assures the U.S. industry of continued participation in the Canadian market. Over the long term the economies of both countries should benefit.

VII. CONCLUSION

Both the United States and Canada benefit from the automotive industry, and any restrictions on the industry could adversely affect both countries. General Motors has an obligation to accomplish the objectives of the trade agreement and is confident of its ability to continue to make a contribution to the economies of both countries.

WITNESS: CHRYSLER CORP., DAVID KENDALL, VICE PRESIDENT AND GENERAL COUNSEL, ACCOMPANIED BY SIDNEY TERRY, EXECUTIVE ASSISTANT TO GROUP VICE PRESIDENT, INTERNATIONAL OPERATION; AND EUGENE STEWART, ATTORNEY

SUMMARY OF STATEMENT

1. Traditional relationships between Chrysler-U.S. and Chrysler-Canada.
2. Pattern of development of auto industries in other countries.
3. Reasons for developing countries establishing their own auto industries.
4. Justification for local content requirements in less-developed manufacturing countries.
5. Canada's progressive policy toward her automotive industry.
6. Benefits of Canada's policy.
7. Trade agreement next logical step in traditional United States-Canadian cooperation.
8. Advantages of trade agreement over duty remission program.
9. Description of protective provisions for Canadian industry.
10. Volume relationships of United States and Canadian parts suppliers.
11. General long-term advantages of trade agreement to both countries.
12. Specific opposition to placing in hands of executive branch the subpoena and public disclosure powers over confidential business data in adjustment assistance cases.
13. Favor retaining Tariff Commission for factual investigation.
14. Trade agreement a new tool with great potential for increasing international economic cooperation.

WITNESS: FORD MOTOR CO., FRED SECREST, VICE PRESIDENT AND CONTROLLER

SUMMARY OF STATEMENT

Ford Motor Co. endorses H.R. 6960, the bill designed to implement the agreement of January 16, 1965.

We believe that the agreement will—

1. Increase the efficiency of the automotive industry, and promote a more rapid rate of growth in output and employment in the United States and Canada.

2. Maintain a major Canadian export market for U.S. producers of automotive items, and insure continuance of an automotive trade balance between the two countries that is favorable to the United States, and yet acceptable in magnitude to the Canadian Government.

Although we do not consider the agreement and its associated qualifications to be perfect, the limited free-trade approach that it contemplates seems entirely reasonable to us, in the present circumstances.

If the agreement should not be implemented, we think it likely that Canada would eventually follow the precedents established by many other countries and act to restrict sharply automotive imports through content restrictions, high external tariffs or import licenses. Such actions would eliminate most of our automotive exports to Canada, with serious attendant employment loss for U.S. workers; they would also force even greater inefficiencies on the Canadian automotive industry and on Ford of Canada.

With respect to the possible effects of the agreement on the U.S. automotive industry, we believe that—

1. Output and employment in the U.S. industry will continue to rise, and U.S. automotive exports will continue to exceed imports by a substantial margin.

2. Specifically, Ford's automotive exports to Canada will continue to exceed our imports from Canada, probably by greater amounts than in 1963.

3. From a timing standpoint, the extremely high level of current operations, relative to capacity, in both the United States and Canada should minimize the effects of any isolated and temporary dislocations that might accompany the agreement.

WITNESS: AMERICAN MOTORS CORP., BERNARD A. CHAPMAN, EXECUTIVE VICE PRESIDENT, ACCOMPANIED BY FREDERICK C. HOLDER, GENERAL MANAGER, SPECIAL PRODUCTS DIVISION

SUMMARY OF STATEMENT

1. Our support of the principles of the United States-Canadian automotive trade agreement of 1965.

2. Our appreciation of the underlying economic objectives of the Canadian Government.

3. The nature of the undertakings between American Motors of Canada, Ltd., and the Canadian Government.

4. Our belief that Canadian objectives can be attained in the expanding Canadian automotive market without injury to U.S. industry and employment.

WITNESS: HON. JOHN BRADEMAS, MEMBER OF CONGRESS (INDIANA)

SUMMARY OF STATEMENT

Congressman Brademas will present a résumé of the developments since the introduction by the Canadian Government of the duty remission plan. He will claim that the effect of this "scheme" is to pare away a portion of the American automotive parts business to Canada and will cite a particular case where a radiator manufacturer in his district transferred his plant to Canada. He will criticize the United States-Canadian automotive agreement raising questions as to the effect it would have on U.S. auto parts operations, including workers.

WITNESS: HON. FRANK A. STUBBLEFIELD, MEMBER OF CONGRESS (KENTUCKY)

SUMMARY OF STATEMENT

Congressman Stubblefield will claim that the automotive agreement and the implementing legislation would have an injurious effect on auto parts manufacturers in Kentucky. He will refer particularly to the Modine Manufacturing Co. plant, the largest employer in Paducah, Ky., and will predict dire consequences that would follow if that plant were to be forced to move to Canada. He will foresee even more serious results if the agreement were expanded to include replacement parts but excluded independent manufacturers of replacement parts from the Canadian market.

**WITNESS: INDUSTRIAL COMMITTEE OF PADUCAH, KY.,
ALFRED R. McCAULEY**

SUMMARY OF STATEMENT

I. Make-up of the Paducah Industrial Committee.

II. Prior threat to the economy of Paducah from the Canadian subsidy program.

III. Prior complaint to the Secretary of the Treasury under countervailing duty statute—section 303 of the Tariff Act of 1930 against Canada's subsidy program and its disposition.

(a) Section 303 is aimed at preventing the unfair trade practices of a foreign government subsidizing exports to the United States.

(b) Section 303 prescribes the sole method by which the executive branch can neutralize foreign subsidies.

(c) There is no authority in the Executive to ignore the congressional mandate that section 303 imposes on the Secretary of the Treasury.

(d) The executive agreement offered as a "solution" to Canada's unfair practices is wholly without authority in the U.S. law.

IV. The trade agreement of January 16, 1965, does not remove the threat to Paducah's economy of subsidized Canadian exports.

(a) The agreement does nothing to impede Canadian exports of subsidized merchandise to the United States.

V. The only reason for the trade agreement of January 16, 1965, was to make it possible for the Secretary of the Treasury to avoid his responsibilities under section 303's mandate.

(a) The January 16, 1965, trade agreement will not stimulate trade in automotive products between the United States and Canada one iota.

(b) The effect of the agreement is to leave trade frozen at 1964 levels.

VI. The real impact on trade will come about through the operation of the so-called private agreements.

(a) Pursuant to the private agreement between the Canadian Government and the auto companies, Canada will be assured of a significant share of the U.S. market.

(b) Pursuant to these private agreements Canada's share of the U.S. market will be greatly in excess of the share Canada attempted to capture by the illegal subsidy scheme which the new program displaces.

(c) Therefore the real, and the only, impact on United States-Canada trade in automotive products will come about through the operation of these private agreements and will result in a 100 percent plus factor for Canada and a 100 percent negative factor for the United States.

VII. The private agreements between Canada and the auto companies represent the quid pro quo for Canada's abatement of Canadian tariffs on imports into Canada by the auto companies. In other words, Canada is paying a subsidy in the form of remission of \$50 million annually in Canadian duties in exchange for the export to the United States, pursuant to the private agreements, of \$250 million worth of Canadian automotive products.

VIII. The Paducah Industrial Committee, because the present Canadian program is no different in substance from the prior program, has filed a petition with the Commissioner of Customs, Department of the Treasury, requesting a countervailing duty order against Canada's subsidized exports under the new scheme.

IX. H.R. 6960 provides for contribution by the United States to the Canadian subsidy scheme.

(a) The elimination of the U.S. tariff of 6 and 8½ percent, applicable to imported vehicles and parts, will constitute a contribution of several million dollars to the auto companies.

(b) The passage of H.R. 6960 will perfect Canada's subsidy scheme and insure that it will operate to force the transfer of U.S. capital and jobs to Canada.

X. The passage of H.R. 6960 may also create a jurisdictional bar to proceedings under section 303 of the Tariff Act of 1930 which have already been instituted regarding the automotive products covered by the bill.

(a) The historic policy of Congress not to divest prior statutory rights already exercised by U.S. citizens requires that if H.R. 6960 is passed it contain a provision which will preserve section 303's applicability to the articles covered by the bill.

XI. The passage of H.R. 6960 will not be in the national interest.

(a) The national interest is served by protecting U.S. trade and commerce from unfair trade practices. H.R. 6960 will compound and perfect Canada's present unfair trade practices of subsidizing exports to the United States with the objective of pirating U.S. jobs.

(b) The adjustment assistance provisions of H.R. 6960 are inappropriate. There will be no benefit to the U.S. economy from the trade agreement or the passage of the bill. U.S. workers should not be asked to give up their jobs where there will be no benefits to the country as a whole.

XII. The passage of H.R. 6960 will adversely affect the national interest.

(a) Our balance of trade will be hurt.

(b) Our balance of payments will be hurt.

(c) Our historic policy of multilateral—never bilateral—trade agreements will have been compromised.

(d) U.S. obligations under the General Agreements on Tariffs and Trade will be violated.

**WITNESS: E.I.S. AUTOMOTIVE CORP., MIDDLETOWN,
CONN., E. I. SCHWARZ**

SUMMARY OF STATEMENT FOR THE RECORD

Congressman Eugene J. Keogh placed a telegram in the record from E.I.S. Automotive Corp. of Middletown, Conn., a small independent auto parts manufacturer, claiming that his company would be adversely affected by the bill.

**WITNESS: AUTOMOTIVE WHOLESALERS OF ARKANSAS,
BILL TUCKER, EXECUTIVE SECRETARY**

SUMMARY OF STATEMENT

1. Local marketing of automotive parts:
 - Independent wholesalers
 - Franchised automobile dealers
2. Procurement problems of wholesalers:
 - From independent parts manufacturers
 - From subsidiaries of vehicle manufacturers
3. Trade agreement effects on aftermarket:
 - Limitation of parts resources
 - Reduction of competition among suppliers

WITNESS: COMMITTEE FOR A NATIONAL TRADE POLICY, CHARLES P. TAFT, GENERAL COUNSEL

SUMMARY OF STATEMENT

1. Despite the obvious fact that the treaty between the United States and Canada does not provide for total free trade now on automobiles and original automotive parts between the two countries, we feel that the agreement goes in the direction of rationalizing the industry on the North American continent and should result in lower costs of production both in Canada and the United States, to the ultimate benefit of consumers in both countries. The objective is clearly total free trade.

2. The provisions relating to periodic review of the effects of the agreement will, in our opinion, enable both countries to make certain that the agreement actually results in the benefits which are currently contemplated.

3. We have the problem of a waiver from the GATT. We recognize, of course, that the agreement contains an offer to other countries of free trade in automotive products. However, it is our view that the duty free treatment provided in this legislation should, in the first instance, be extended to all countries on an MFN basis, under the condition that this duty free treatment be made a part of the Kennedy round negotiations and that producing countries be prepared to give similar treatment or be denied MFN. This seems to us to be an easier way of obtaining the waiver if it should be necessary. Psychologically, having extended MFN subject to reciprocity, we would be in a better position to obtain the waiver in the event we cannot get reciprocity. We also feel that such a tactic might have a stimulating effect on the overall prospects for a successful Kennedy round.

4. The annual report to the Ways and Means Committee and Finance Committee should include the actual effect of the agreement on automotive trade between the two countries, prospects for the future, and any recommendations the administration proposes to maximize the benefits of the program.

5. We believe the United States should explore with Canada the possibility of free trade in other industries which lend themselves peculiarly to the kind of treatment set forth in this legislation. This does not mean that we no longer favor the general principle of unconditional MFN or that we do not believe that this principle is in the best interest of the United States. However, in each case where a special free trade arrangement is worked out with Canada, we believe that MFN should be offered on the basis of reciprocity.

6. We have some hesitation about placing in the executive branch judgments regarding serious dislocation within the industry and the attribution of its primary cause. We feel that the role of the Tariff Commission in the adjustment assistance process is important and that bypassing that independent Commission might lead to decisions overly influenced by political factors. In this connection we feel that any American companies which have reason to fear dislocation as a result of this agreement should be invited by the Government to discuss their problems with the Department of Com-

merce and the Small Business Administration in order to attempt to cope with any such problems before they reach serious proportions. It is our view that the Tariff Commission should then be responsible for making the kinds of judgments described in the adjustment assistance provisions of this bill.

7. Conclusion: We recommend passage of this legislation whether or not the recommended changes, which we regard as improvements, are accepted. This is on the assumption that the agreements made between the Canadian automobile companies and the Canadian Government, the terms of which we do not know at this writing, tend to advance the free-trade objectives of this legislation.

WITNESS: AUTOMOTIVE SERVICE INDUSTRY ASSOCIATION, ALLAN L. LEVINE, PRESIDENT

SUMMARY OF STATEMENT

I. Structure of automotive industry:

For new cars:

Vehicle manufacturers

Independent parts manufacturers

For automotive after market:

Vehicle manufacturers

Independent parts manufacturers

Wholesalers and other independent distributors

II. The trend toward monopoly:

Vehicle manufacturers push for aftermarket

Wholesalers and independent parts manufacturer competitive situation

Historic attitude of government

III. Monopolistic aspects of trade agreement:

Canadian Government grant of exclusive tariff-free import privileges to vehicle manufacturers—the economic aspects

Stimulus for in-plant resourcing

IV. Loss of jobs and contracts in United States:

The economics of the Canadian conditional tariff elimination.

Incentive to resource in Canada

V. Effect of resourcing for new parts on the aftermarket.

VI. Pressures on independent parts manufacturers.

VII. Dependence of distributors on independent parts manufacturers.

VIII. The OEM problem—parts destined for new equipment going to the aftermarket.

WITNESS: UNITED AUTOMOBILE, AEROSPACE AND AGRICULTURAL IMPLEMENT WORKERS OF AMERICA (AFL-CIO), LEONARD WOODCOCK, VICE PRESIDENT

SUMMARY OF STATEMENT

The UAW supports the principle of removing artificial trade barriers between the American and Canadian sections of the auto industry. The automotive products agreement, which H.R. 6960 implements, will permit physical integration of the United States and Canadian sections of the industry, which will result in greater efficiency of operation and lower costs, permitting reduced prices and thus stimulating increased sales production and employment. At the same time, amicable solution of what had been a thorny problem will strengthen our friendship with Canada. We hope that the agreement will prove so beneficial to both countries that the principle it embodies will eventually be extended to other industries.

Since integration of the industry will have adverse effects on the employment of some workers, provision of adjustment assistance is absolutely essential. Reliance on the Trade Expansion Act would not be satisfactory, both because many of the situations which could arise under the agreement are not provided for in the Trade Expansion Act, and because the Tariff Commission's vetoing of every application for assistance made under the Trade Expansion Act has made that act a total failure as far as adjustment assistance is concerned. H.R. 6960 meets this problem by establishing its own machinery for determining eligibility, including criteria which are sufficiently flexible to insure that workers who are adversely affected by the agreement can qualify for assistance. In the absence of such provisions to insure that adjustment assistance would in practice be available, we would have had no alternative but to oppose the bill.

WITNESS: MOTOR AND EQUIPMENT MANUFACTURERS ASSOCIATION, EARL W. KINTNER, GENERAL COUNSEL (OVER 500 LEADING MANUFACTURERS OF AUTOMOTIVE REPLACEMENT PARTS, CHEMICALS, EQUIPMENT, TOOLS, AND ACCESSORIES)

SUMMARY OF STATEMENT

The association's presentation will, in summary, stress that section 202 of the proposed legislation provides the Executive with unprecedented broad powers to eliminate tariffs on automotive products with any country in the world. Moreover, under the proposed legislation, such elimination could apparently be implemented at any time in the future without a right of public hearing for the industries concerned. The Motor and Equipment Manufacturers Association will take the position that the granting of such broad powers to the Executive is unwarranted and represents an unjustified departure from our traditional principles and procedures in the field of tariffs.

The Commission will be responsible for the management of the operation whether it involves the construction of new improvements, or the maintenance of existing ones and the Australian Government will be asked to know at this writing, tend to be the same as the case of the operation.

AMERICAN SHIPBUILDING INDUSTRY ASSOCIATION
NATIONAL PRESIDENT

STILLER OF SWANSEA CANY

- Vehicle manufacturers
 - Independent parts manufacturers
 - Wholesalers and other independent distributors
- Move toward monopoly:
 - Vehicle manufacturers push for aftermarket
 - Wholesalers and independent parts manufacturer competitive situation
- Historic attitude of government
- Monopolistic aspects of trade agreement:
 - Canadian Government grant of exclusive tariff-free import privileges to vehicle manufacturers—the economic aspects
 - Stimulus for in-plant resourcing
- Loss of jobs and contracts in United States:
 - The economics of the Canadian conditional tariff elimination.
 - Incentive to resource in Canada
- V. Effect of resourcing for new parts on the aftermarket.
- VI. Pressures on independent parts manufacturers.
- VII. Dependence of distributors on independent parts manufacturers.
- VIII. The OEM problem—parts destined for new equipment going to the aftermarket.

WITNESS: UNITED AUTOMOBILE, AEROSPACE AND AGRICULTURAL IMPLEMENT WORKERS OF AMERICA (AFL-CIO), LEONARD WOODCOCK, VICE PRESIDENT

SUMMARY OF STATEMENT

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WITNESS: MOTOR AND EQUIPMENT MANUFACTURERS ASSOCIATION, EARL W. KINTNER, GENERAL COUNSEL (OVER 500 LEADING MANUFACTURERS OF AUTOMOTIVE REPLACEMENT PARTS, CHEMICALS, EQUIPMENT, TOOLS, AND ACCESSORIES)

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**WITNESS: MOTIVE PARTS CO., INC., HYDE PARK, MASS.,
LOUIS BLUMENTHAL, PRESIDENT**

SUMMARY OF STATEMENT

Congressman Burke introduced a letter to be inserted in the record from Louis Blumenthal, president, Motive Parts Co., Inc., Hyde Park, Mass., expressing opposition to legislation to implement the United States-Canadian automotive agreement on the grounds (1) that such legislation would "be handing a cartel to Ford, Chrysler, and General Motors to help them drive independent businessmen like myself to the wall," and that (2) the consequence would be the loss of 60,000 jobs.

**WITNESS: INDUSTRYWIDE AUTOMOTIVE TARIFF
STUDY COMMITTEE, HAROLD T. HALFPENNY,
COUNSEL**

SUMMARY OF STATEMENT

- I. Basic goal of the Bladen plan :
 1. Duties remission
 2. Export incentives
- II. The countervailing duties action.
- III. Atmosphere of trade agreement negotiations:
 - Canadian demand for increased exports
 - Threat of increased Canadian content
 - Role of vehicle manufacturers
- IV. The meaning of the Canadian orders-in-council to effect the agreement.
- V. Legal questions raised by vehicle manufacturers' commitments to Canada.
- VI. Unresolved Government policies with respect to imports from Canada:
 - Countervailing duties
 - Dumping complaints
 - Antitrust laws
- VII. The administration of the proposed legislation.

**WITNESS: NATIONWIDE COMMITTEE ON IMPORT-
EXPORT POLICY, O. R. STRACKBEIN, CHAIRMAN**

SUMMARY OF STATEMENT

The economic conditions that justify free trade between different countries are present in greater degree in this instance than in many others. The difference in wage rates is no greater than between different parts of the United States.

Nevertheless there are objectionable features to the agreement :

1. It would discriminate in favor of one domestic industry and one group of workers over the other industries and workers by granting distinctly more favorable conditions for adjustment assistance than those contained in the Trade Expansion Act ; and

2. If the agreement should be condemned by GATT compensation must be granted in the form of duty reductions on other imports, thus calling on innocent bystanders to pay for the benefits of the automotive industry and its employees.

Such discrimination offends fairplay and does not represent orderly procedure. It is not good government.

WITNESS: ANTIFRICTION BEARING MANUFACTURERS ASSOCIATION, HARRY B. PURCELL (ASSOCIATION CONSISTS OF 39 COMPANIES, WHO PRODUCE OVER THREE-FOURTHS OF THE ANTIFRICTION BEARINGS AND PARTS IN THE UNITED STATES)

SUMMARY OF STATEMENT

The purpose of my statement will be to oppose certain provisions of H.R. 6960. Briefly, I will expect to discuss:

1. The fact that it is inappropriate to include a universal use item such as a bearing in the bill. Bearings used in the assembly of automobiles can, in general, find applications in other industries. There is no assurance that such bearings entering the country free of duty as original equipment will be diverted into the general replacement market.

2. Oppose the inclusion of section 202(a), which would allow the President to carry out similar agreements with any other country. This delegation could lead to consequences not presently envisioned and could have serious repercussions on the domestic bearing industry.

3. Oppose the inclusion of section 202(b), which would allow the President to reduce or remove the duties on replacement parts. Imports of bearings in the automotive sizes are already having a damaging effect on the domestic industry. Any increase of imports caused by duty reductions will only serve to intensify the present bad situation.

WITNESS: WHITAKER CABLE CORP., NORTH KANSAS CITY, MO., JACK F. WHITAKER, PRESIDENT

SUMMARY OF STATEMENT FOR THE RECORD

Mr. Whitaker feels that H.R. 6960 should be enacted. He feels that the Canadian tariff remission scheme which was rescinded on the signing of the new agreement was license to invade the U.S. market on automotive parts, including replacement parts at "intolerable competitive prices." He expresses the opinion that countervailing would have stopped it, but that retaliations would have resulted. While he feels problems will arise under the agreement, Mr. Whitaker states that an approach to free trade could be most fruitful and feels that work should be done toward a true free trade concept in the industry.

**WITNESS: RUBBER MANUFACTURERS ASSOCIATION,
INC., ROSS R. ORMSBY, PRESIDENT**

SUMMARY OF STATEMENT FOR THE RECORD

This association states the opposition of its membership to paragraphs (j) through (l)—submission of records and disclosure of information—of section 302 of the bill. The RMA grounds its opposition on its contention that the President would be given unnecessary authority to compel submission of business records; that the scope of information required is dangerously broad; that highly confidential company records could be publicly disclosed; and that Federal agencies of "questionable competence" could be brought into the proceedings of an adjustment assistance petition investigation.

The RMA recommends deletion of the above-cited paragraphs, holding that adequate authority for the conduct of an investigation by the President is already available through both the Trade Expansion Act of 1962 and through earlier paragraphs within section 302 itself.

**WITNESS: MONTANA AUTOMOTIVE WHOLESALERS
ASSOCIATION, RAY F. REAVLEY, EXECUTIVE SEC-
RETARY**

SUMMARY OF STATEMENT FOR THE RECORD

Montana Automotive Wholesalers Association submitted for the record a statement of opposition to the enactment of H.R. 6960, claiming that the enactment of the bill would create discrimination; that it would be impossible to police the sale of automotive products manufactured by automobile manufacturers, and that they do not believe in robbing Peter to pay Paul.

Mr. KING. It is my understanding that the administration is represented here today by the Under Secretary of State for Economic Affairs, the Honorable Thomas C. Mann; the Secretary of Commerce, the Honorable John T. Connor; and the Secretary of Labor, the Honorable W. Willard Wirtz.

It is my further understanding that the statements of these Departments have been coordinated and that the Secretaries would prefer to sit at the table at the same time so that each might deliver his statement in full before there are questions, and that after all the statements are delivered the panel will respond to any questions which members may have.

Will the gentlemen come forward?

We are pleased to have you. You may present your statements for the record. Please identify yourself and who will assist you in your testimony.

Mr. MANN. On my left, Mr. Chairman, is Phil Trezise, who is the Deputy Assistant Secretary for Economic Affairs.

Secretary CONNOR. I have Robert McNeill, Deputy Assistant Secretary for Trade Policy.

Secretary WIRTZ. Mr. Chairman, I am accompanied by Herbert Blackman who is in the Division of Foreign Economic Policy of the Bureau of International Labor Affairs in the Department of Labor.

Mr. KING. You may proceed, gentlemen, as you wish.

STATEMENT OF HON. THOMAS C. MANN, UNDER SECRETARY OF STATE FOR ECONOMIC AFFAIRS; ACCOMPANIED BY PHILIP H. TREZISE, DEPUTY ASSISTANT SECRETARY FOR ECONOMIC AFFAIRS

Mr. MANN. Mr. Chairman and members of the committee, last January President Johnson and Prime Minister Pearson signed an important agreement directed toward freeing trade in automotive products between the United States and Canada. The legislation before you now is necessary to carry out our side of that agreement.

Before discussing the legislation itself, it may be helpful for me to review with you briefly the background of this legislation and the agreement that it implements.

Canada and the United States are each other's most important trading partners. The value of the trade between us is more than \$8 billion annually—the greatest between any two nations in the world. Our trade last year in automotive products alone was about \$700 million, and is growing rapidly.

The Canadian and United States automotive industries are strikingly similar. Consumers in both countries prefer the same kinds of cars. Over 90 percent of the automotive products manufactured in Canada are made by subsidiaries of U.S. companies, and Canadian automotive workers belong to the same international union. For these reasons, it has been generally recognized that the separation of our two automotive industries by artificial trade barriers is economically unsound.

Before the automotive products agreement, Canada imposed a duty on 17½ percent on motor vehicles, and up to 25 percent on parts. In addition, a "Commonwealth content" provision encouraged Canadian manufacturers to include at least 60 percent of Canadian value in their output. For our part, the United States imposed a 6½-percent duty on automobiles and an 8½-percent duty on parts.

The protective devices maintained by Canada stimulated the growth of its automotive industry, but not a fully efficient one. Canadian subsidiaries of U.S. manufacturers built plants that duplicated similar facilities in the United States. But because of the more limited Canadian market, they were unable to achieve the economies of scale realized by their parent companies. The same automobile costs a Canadian about 10 percent more than its costs an American.

Faced with high-cost production and higher priced products, a lagging growth rate in its industry and a steadily increasing trade deficit, the Canadian Government sought to correct this situation.

In November 1962 it announced a duty remission plan to encourage increased Canadian production of a few automotive products and to stimulate Canadian exports. The plan was extended in 1963 to cover all automobiles and parts for original production. Under this plan, Canadian manufacturers who increased their automotive exports would receive an import duty rebate on a comparable value of automotive imports.

A number of U.S. manufacturers became concerned that this plan might give Canadian parts manufacturers an unfair advantage. Particular concern was felt by the U.S. manufacturers of replacement parts because the Canadian plan gave credits for exports of such parts but did not allow a corresponding duty reduction for imports of these parts.

These manufacturers petitioned the Government to impose countervailing duties on Canadian automotive imports under section 303 of the Tariff Act, which provides for the imposition of such duties when "bounties and grants" are given by foreign countries for exports to the United States.

While the question of imposing countervailing duties was under investigation, the administration examined the entire problem of our automotive trade with Canada. There was some question as to the legality of imposing countervailing duties. There was also every reason to believe that if countervailing duties had been applied, we would be headed down a path of retaliation and counterretaliation that would have both wasted the resources of our two countries and embittered our relations.

This could have had a disastrous effect on sales of U.S. automotive parts in Canada; it could have radically reduced our favorable balance of trade with Canada in automotive products; and it could have led to substantial loss of employment in the United States.

Most important, the imposition of countervailing duties would not have reached the heart of the problem—the fact that the automotive industries of our two countries are a single North American industry, divided by artificial economic barriers—the Canadian tariff and other requirements on the one hand and the U.S. tariffs on the other.

The agreement signed by President Johnson and Prime Minister Pearson last January provides for the elimination of most of these barriers. In my judgment, it is one of the most significant international economic initiatives that we have taken in a number of years. Canada has laid aside the alternative of an autonomous automotive industry and has joined with us to create a rationalized and integrated North American automotive industry. Duplication will be avoided. Production costs will be reduced. Canadian subsidiaries of U.S. companies will be able to produce longer runs of fewer models, lower their prices and expand their markets. The economies of both countries will benefit.

Three features of the agreement are particularly important.

First is its long-term purpose to liberalize automotive trade and to develop conditions in which market forces may operate effectively to attain the most economic volume of investment, production, and trade.

Second is the immediate action it calls for. The Canadian Government agreed to eliminate all duties on U.S. automobiles and original parts imported into Canada under the terms of the agreement. For our part, the U.S. Government agreed to seek prompt enactment of legislation authorizing duty-free treatment for such products of Canadian origin.

Third, the two Governments agree to undertake, no later than January 1, 1968, a comprehensive review of progress toward the objectives of the agreement.

The agreement is specific that it does not preclude action by either Government consistent with its obligations under part II of the General Agreement on Tariffs and Trade—GATT. This preserves the right to take escape clause action if necessary. The agreement also provides that at the request of either Government, the parties may consult concerning the application of the agreement to new automotive producers in Canada and for other purposes. The parties may accord to other countries access to their markets on similar terms. The agreement is intended to continue indefinitely but may be ended by either party on 12 months' written notice.

The agreement came into provisional effect on the date of signature and will come into definitive effect after appropriate action is completed in the legislatures of both countries.

The principal provisions of the legislation to carry out the agreement may be simply stated:

First, it would authorize the President to remove duties on all Canadian automotive products covered by the agreement—as Canada has already done for such U.S. products—retroactive to last January. The President would also be authorized to include other automotive products that may be subsequently developed.

Second, the President would be authorized to carry out agreements similar to the Canadian one with other countries if he should determine that such agreements would afford mutual trade benefits.

Third, the President would be authorized to carry out an agreement with Canada for the reduction or removal of duties on automotive replacement parts. We were unsuccessful in our efforts to include replacement parts in the coverage of the present agreement, and it is desirable to have this authority available if the opportunity arises to use it.

If we conclude agreements with other countries similar to the Canadian one, the President would also be authorized to agree with such countries on the mutual reduction of duties on replacement parts.

Fourth, the legislation includes detailed provisions for adjustment assistance. Secretary Wirtz will discuss these provisions with you, but I do want to emphasize the support of the entire executive branch for them.

Fifth, the legislation provides for the modification of our tariff schedules and lists the automotive products on which the duties are to be eliminated.

Finally, the legislation provides for an annual report to the Congress concerning the implementation of the legislation.

The agreement, and the legislation to implement it, are, as I have said, major steps forward. They will not, however, immediately free the United States-Canadian automotive industry of all trade barriers. The Canadian industry is about one twenty-fifth the size of our own, and the Canadians have understandably insisted on transitional protections until their industry can adjust its operations to the vastly larger North American market.

Under the agreement, Canada accords duty-free entry to automobiles and parts only when they are imported by or on behalf of manufacturers and those manufacturers must maintain their assembly operations at existing rates. Furthermore, because the Canadian replacement parts industry is particularly vulnerable, replacement parts are

not at this time covered, although we hope that such coverage will be possible in the years ahead.

Canada also wanted to be certain that its automotive industry would gain a fair share of the increase in the Canadian market that will be stimulated by the agreement. Therefore, Canada asked each of the Canadian producers for a letter concerning their plans for expanding production in Canada.

The U.S. Government was not a party to the letters, but in the course of the intergovernmental negotiations, the Canadian Government informed us of their general terms. Taken together, they indicate an intention by the U.S. subsidiaries to increase their Canadian production by approximately \$241 million over the 4 model years ending in 1968 above the increase that would otherwise have occurred.

The agreement provides for a comprehensive review of all aspects of the United States-Canadian automotive trade no later than January 1, 1968. We expect that during the course of this review it will be possible to agree on further steps to make our automotive trade with Canada free of restrictions.

Finally, I should say a word about the relation of the agreement and the implementing legislation to other countries.

The Canadian arrangement deals with a unique situation. Its purpose is to make possible a single North American automotive industry and it goes far beyond a typical reduction of tariffs in a trade negotiation. We did not, therefore, think that the agreement's provisions should be automatically available to other nations. Such an action would be unfair to the United States since many other automobile producing nations not only have much higher tariffs, but also have nontariff barriers that seriously impair U.S. sales. The agreement does provide, however, that "access to the United States and Canadian markets * * * may by agreement be accorded on similar terms to other countries."

We have discussed the agreement in some detail with our GATT partners and have made clear that we do not expect it to divert trade or otherwise change the competitive positions of third countries in the North American market. We are, therefore, confident that we will reach a satisfactory understanding with our GATT partners on this matter.

In concluding, let me recall to you the words of the President in proposing the legislation to carry out the agreement with Canada. The President said:

"The agreement and this bill are designed to lead to a more efficient organization of the North American automotive industry. It is based on mutual trust and will result in mutual benefit—benefit to producers, to labor, and to consumers on both sides of the border.

"Canada has acted. It is our turn. In order that we may act, I ask the Congress to approve promptly this legislation."

Thank you very much, Mr. Chairman.

Mr. KING. Thank you, Secretary Mann.

Secretary Connor?

**STATEMENT OF HON. JOHN T. CONNOR, SECRETARY OF COMMERCE;
ACCOMPANIED BY ROBERT L. McNEILL, DEPUTY ASSISTANT
SECRETARY FOR TRADE POLICY**

Secretary CONNOR. Mr. Chairman and members of the committee, I am pleased to appear before you in support of H.R. 6960, the proposed legislation to enable us to carry out our commitments under the United States-Canadian Automotive Products Agreement. As you know, Canada has already eliminated duties on imports of finished motor vehicles and original equipment parts, in accordance with its obligations under the agreement.

This legislation, if enacted, will authorize duty free imports into the United States of finished motor vehicles and original equipment parts produced in Canada. Together with action already taken by the Government of Canada, its general effect should be to lead to expanded production and consumption of automotive products in North America, to the benefit of both the United States and Canada.

The Department of Commerce participated extensively with the Department of State in the long series of discussions and negotiations that led up to the signing of the United States-Canadian Automotive Products Agreement by President Johnson and Prime Minister Pearson on January 16, 1965. The Department's specific concern, of course, was how best to preserve the very substantial market in automotive products that U.S. exporters have had in Canada, in the face of the Government of Canada's strong determination to increase Canadian production of automobiles and automobile parts.

The key statistics and factors are these: In 1963 and 1964 U.S. automotive exports to Canada averaged around \$600 million, whereas our automotive imports from Canada in 1963 and 1964 averaged around \$60 million.

Thus we have had an exceptionally favorable balance of trade in the automotive sector. As a matter of fact, these U.S. exports to Canada have represented approximately a 40-percent share of the total Canadian automotive market, which averaged about \$1.5 billion in factory sales in 1963 and 1964 (compared with total U.S. factory sales during the same period of about \$24 billion annually).

Mr. Chairman, with your permission I would like to introduce in the record at this point a study which has been made by the Department of Commerce entitled "Profile of the North American Automotive Industry." This study is objective and factual and I think will be helpful to the committee in seeing the whole picture of the automotive industry in the United States and Canada and its component parts.

Mr. KING. Without objection it will be included in the record.
(The document referred to follows:)

PROFILE OF THE NORTH AMERICAN AUTOMOTIVE INDUSTRY

The automotive industries in the United States and Canada form a single great North American industry. The major producers of motor vehicles in the United States have corporate ties to Canadian producers and vice versa. The industry in Canada is a small-scale extension of the U.S. industry that has located north of the border to take advantage of tariff protection and other trade advantages in maintaining a share of the Canadian market, domestic and export. Subsidiaries of American companies account for over 90 percent of

motor vehicle production in Canada. Canadian production has been largely concentrated in the final assembly of vehicles, with a substantial volume of parts and components imported from the United States. The integral nature of the industry is such that manufacturing facilities on both sides of the border produce many identical items that are virtually fully interchangeable.

The North American automotive industry is composed of those establishments whose primary products are motor vehicles—passenger cars, buses, and trucks—and of those establishments whose primary products are parts, components, and accessories which may be used either as original parts or as replacements. As used here, the term “automotive industry” includes not only the group of establishments which correspond, in the strictly definitional sense, to Industry 371, Motor Vehicles and Equipment (as classified in the U.S. Standard Industrial Classification, Revised) but also closely related industries, for example, tire and battery manufacturing, and segments of other industries which produce some motor vehicle parts and accessories.

The economy of the industry is geared to the market for the completed motor vehicle. The parts and components segments of the industry, supplying products to the motor vehicles segment, is dependent primarily on the market for finished automobiles, although one-quarter to one-third of its output goes into the replacement market. The production of parts and components varies between companies and changes from time to time, making comparisons and analyses of output and employment hazardous; furthermore the plants of individual companies have differing patterns of production. For example, two establishments with identical shipments may have widely varying manpower requirements simply because one begins with a crude raw material whereas the other starts its manufacturing process with finished subparts. The producer of the final automobile or truck may either produce or purchase parts, components, and assemblies as the economies of the free market direct. There is, therefore, considerable overlap between the motor vehicle segment of the industry and the parts segment.

Furthermore, the vehicle assembler may choose to manufacture or purchase parts or components either in the United States or Canada. The proximity of plants north and south of the Great Lakes makes transportation costs from part and component manufacturer to final assembler a minor consideration in determining the location of parts production. More important in determining the source of parts include: product quality, standards, unit cost, and assurance of meeting delivery schedules. Thus, parts and components may be produced in either the United States or Canada for use in final production or assembly in either country.

However, this natural North American industry has been arbitrarily and uneconomically divided by tariff and other trade barriers into two disparate segments: A huge U.S. industry with total shipments (unduplicated) in 1963 valued at approximately \$24 billion (factory value) and total employment of about 1 million persons; and a much smaller Canadian industry with total shipments valued at approximately \$1.5 billion for model year 1964 (Aug. 1, 1963, to July 31, 1964) and total employment of about 80,000 persons. About \$0.6 billion of the Canadian total value represents original equipment imported from the United States. This disparity in size results, in turn, in substantially higher cost production in Canada.

THE U.S. INDUSTRY

The U.S. automotive industry as strictly defined (SIC 371, Motor Vehicles and Equipment Industry) is composed of over 2,000 establishments. These are plants which are primarily engaged in the manufacture of motor vehicles and/or parts and components. In the broader sense, the U.S. industry includes a much larger group, perhaps as many as 20,000 additional establishments, classified in other industries, which also produce some automotive parts and accessories.

The more than 2,000 establishments, employing an estimated 770,000 persons, constitute the core industry. This number together with an estimated additional 225,000 to 230,000 employed in other industries in the manufacture of automotive parts and accessories makes a total of approximately 1 million persons directly engaged in the manufacture of motor vehicles, parts, and accessories.

In 1963 the automotive industry as strictly defined (SIC 371) had a payroll of more than \$5 billion; its factory output value (unduplicated) amounted

to \$24 billion; of which the value added by manufacture in the industry amounted to \$12.7 billion.

Factory output of vehicles, parts, and accessories in 1964 is estimated at about \$25.8 billion. Production by the industry, which is geared to vehicle sales, totaled 7.8 million cars and 1.5 million trucks and buses, with an estimated total factory value of more than \$21 billion. Assembly plus parts produced by the vehicle manufacturers accounted for about 65 percent of the total value; the balance represents parts produced by the independent parts manufacturers. In addition, sales of replacement parts in 1964 are estimated at \$3.3 billion, factory value; exports of parts and accessories, for assembly and replacement, totaled \$1.1 billion.

TABLE 1.—*Estimated total value¹ (unduplicated) of U.S. factory shipments of automotive products (SIC 371), 1962–64*

[Dollar amounts in billions of U.S. dollars]

Item	1962	1963	1964 preliminary	Percent of total in 1964
Passenger cars, domestic and export ²	\$14.6	\$16.2	\$17.0	66
Trucks, buses, etc., domestic, and export ³	3.4	4.0	4.4	17
Parts for replacement, domestic ⁴	2.9	3.0	3.3	13
Exports of parts and accessories.....	.7	.8	1.1	4
Total, domestic and export.....	21.6	24.0	25.8	100

¹ Wholesale value of factory shipments; excludes excise tax.

² Based on value of vehicles with standard equipment, adjusted to include optional equipment.

³ Includes truck trailers; also truck and bus bodies valued at \$478,000,000 in 1963.

⁴ Figures for 1962 and 1963 derived from Automobile Manufacturers Association estimate (based on Federal excise tax receipts), adjusted to include an estimated value of tax exempt sales; 1964, Business and Defense Services Administration estimate.

Source: U.S. Department of Commerce, Business and Defense Services Administration (BDSA), based on Bureau of Census data and Automobile Manufacturers Association data.

This giant industry is one of the largest users of steel, glass, rubber, and upholstery material. It converts into finished products 22 percent of the steel, 60 percent of the rubber, 13.5 percent of the aluminum, and 50 percent of the zinc consumed in the United States.

U.S. passenger car production

Production and sales of passenger cars in the United States are at high levels. U.S. production of 7.8 million new passenger cars in 1964 exceeded the 1963 total of 7.6 million, marking the third successive year of increase. U.S. output of passenger cars in the first quarter of 1965 was more than 19 percent above the level in the first quarter of 1964.

Passenger car production in the United States is concentrated in a few companies. Production by the respective companies over the past 3 years is shown below:

TABLE 2.—*U.S. passenger car production, by company, 1962–64*

[Number of cars]

Producing company	1962	1963	1964
General Motors.....	3,741,538	4,077,272	3,963,400
Ford.....	1,935,203	1,863,569	2,140,000
Chrysler.....	716,809	1,047,722	1,239,500
American Motors.....	454,784	480,365	398,200
Studebaker.....	86,974	67,918	4,500
Checker Motors.....	8,026	7,231	6,200
Total.....	6,943,334	7,644,377	7,751,800

Source: Automobile Manufacturers Association.

U.S. truck and bus production

Nineteen U.S. manufacturers produce motortrucks and buses. The output of this segment of the industry has increased almost steadily since 1958 to a record of 1,496,488 trucks and buses in 1964. The factory value of truck and bus production, including separate truck bodies, was estimated at \$3.9 billion in 1964. Truck production in the first quarter of 1965 was 8 percent higher than in the corresponding period of 1964.

TABLE 3.—*U.S. factory sales of motor vehicles, 1961–64*

[Number of units]				
Type of vehicle	1961	1962	1963	1964 ¹
Passenger cars.....	5,542,707	6,933,240	7,637,728	7,751,822
Trucks and buses.....	1,133,804	1,240,168	1,462,708	1,640,453
Total.....	6,676,511	8,173,408	9,100,436	9,292,275

¹ Preliminary.

Source: "Automotive Facts and Figures," 1964 ed., Automobile Manufacturers Association.

Location

The U.S. automotive industry is concentrated in the Middle West although plants are scattered throughout the country. Over 90 percent of the employment in the industry is in 10 States—Michigan, Ohio, Indiana, New York, Wisconsin, California, Missouri, Illinois, Pennsylvania, and New Jersey. Michigan ranks first by a wide margin. The major urban areas of the industry are Detroit, Cleveland, Chicago, and Toledo. The Canadian industry is concentrated across the border in Ontario.

Size of plants

Those plants primarily engaged in manufacturing or assembling complete vehicles are limited in number, and employment is concentrated in large establishments. In March 1964, 95 percent of all U.S. workers employed in plants assembling complete motor vehicles were in plants employing 1,000 or more workers.

Among parts producers, plant size varies widely. Although the industry in general is composed of a large number of small plants, there are a relatively few large plants which account for the bulk of output and employment in the parts industry. About 40 percent of parts workers in the United States are in plants employing over 1,000 workers.

Employment

As already stated, the number of employees directly engaged in the production of automotive vehicles, parts, and accessories in the United States approximates 1 million: 770,000 in the primary industry and the other 225,000–230,000 in associated industries. This does not include indirect employment such as in mills producing sheet steel for bodies, nor does it include the workers involved in making such products as upholstery, nuts, and bolts. These million workers account for nearly 6 percent of total manufacturing employment. Production workers constitute 75 to 80 percent of the total.

Seasonal Fluctuation

The automobile industry experiences year-to-year fluctuations resulting from the level of general economic activity and the availability of credit. In addition, there is a high degree of seasonal fluctuation of shipments and employment in the industry. Employment in August, the month before production on new models begins, is generally 10 to 20 percent below the annual average. Peak employment is reached in the November-through-January period. The segment of the industry producing completed vehicles and the segment producing parts and components experience similar seasonal trends; however, the latter does not have the severe trough in employment caused by model changeover.

Diversification

The major automobile companies are highly diversified. General Motors manufactures home appliances, aircraft engines, diesel-electric locomotives, and heavy earthmoving equipment, as well as participating in contracts in the national defense and space programs. Ford produces farm machinery, electrical products, and a variety of products for the space and defense programs. Chrysler manufactures air conditioners, marine and industrial engines, and has large Government contracts. These companies are also organized to finance the wholesale and retail sale of their products. American Motors produces electrical appliances in addition to its motor vehicles.

In the parts and components segment of the industry there is a sharp distinction between the plants and subsidiaries of the major automobile manufacturers and the independents. Affiliates of the large companies have a more certain market for their product, and benefit from the economies of longer production runs. With increased vehicle sales providing volume justification for new parts manufacturing facilities, they have accounted for an increasingly larger proportion of parts output—about 60 percent according to recent estimates. The industry produces a wide variety of products—some 15,000 parts are required for modern motor vehicles—so the product mix and range of operations differ considerably from plant to plant. Some plants are specialized and others diversified; some are part of the auto industry and others are more closely related to other industries. In short, conditions differ so markedly that no valid generalizations regarding the degree of diversification in the parts industry are possible.

Technology

The motor vehicle industry is a leader in introducing continuous automatic production. The industry has long been characterized by mass production, highly developed division of labor, and full use of conveyors and assembly lines. Economies of scale have been developed in the industry through long production runs and minimum machine downtime for retooling.

The production process in automobile manufacture is considered to fall largely into the three stages: design, machining, and assembly. Those establishments in the industry which specialize in producing parts and components have little to do with the assembly stages of production, but concentrate on the design and machining stages. The manufacture of the large variety of products in this segment of the industry involves virtually all the processes used in the metal-working field, including casting, forging, stamping, machining, heat treating, plating, painting, assembling, welding, and inspecting. The integration of these operations varies from plant to plant.

Profits

The profit situation in the automotive industry compares favorably with that for the total manufacturing sector in general. Profits after taxes in 1963 were 6.9 percent of sales for the automotive industry compared with 4.7 percent for all manufacturing industries; automotive industry profits were 14.4 percent of stockholder equity while all manufacturing industries profits were 10.1 percent. Capital expenditures in the automotive industry in the United States for 1963 are estimated to have been in the order of \$750 million.

CANADIAN INDUSTRY

The structure of the automotive industry in Canada is similar to that in the United States. There are 17 companies producing motor vehicles in Canada, 6 of which produce passenger cars principally and the remainder, trucks and buses exclusively. Canada is the world's sixth largest consumer of automotive vehicles and is a rapidly growing market. Sales in 1964 were estimated at 725,000 units compared to 655,000 in 1963 and 585,000 in 1962. In the same year, production in Canada reached a new high of 670,000 units, compared to 630,000 in 1963 and 512,000 in 1962. This production depended on the purchase of a large volume of imports (net) of original parts and components from the United States.

TABLE 4.—*Factory shipments of made-in-Canada motor vehicles, 1961-64*

[Number of units]

Type of vehicle	1961	1962	1963	1964
Passenger cars.....	326,320	430,860	531,960	-----
Trucks and buses.....	63,562	81,387	98,451	-----
Total.....	389,882	512,047	630,411	660,496

Source: Dominion Bureau of Statistics.

U.S.-owned companies account for well over 90 percent of total vehicle manufacture or assembly in Canada. Non-North American auto assembly in Canada is limited at present to 1 Volvo plant, opened in 1963, with a capacity of about 8,000 units. Assembly facilities for Renaults and Peugeotts, with a combined capacity for about 8,000-10,000 units, are scheduled to begin operations in Canada this year. The Japanese companies Toyoto and Izuzu have recently entered into arrangements for assembly in Canada, with an anticipated combined capacity of 10,000.

At present, there are about 165 manufacturers in Canada primarily engaged in parts production. Complex parts requiring heavy investment for production are generally imported from the United States. A notable exception is automatic transmissions now produced in Canada by one of the vehicle manufacturers. The principal parts and components produced in Canada are engines, differentials, standard transmissions, steering gears, axles, wheels, radiators, piston rings, self-starters, spark plugs, batteries, and laminated glass, as well as various electrical components.

Canadian employment

The automotive industry is the second largest manufacturing employer in Canada, with an average 41,000 employees engaged in motor vehicle production in 1964 and another 40,000 in the parts industry. Both the automobile parts and component manufacturing and assembly segments of the Canadian industry are growing rapidly. Canadian automotive industry employment in 1964 increased 9 percent over 1963, when employment in the vehicle and manufacturing segments was 37,600 and 35,000 respectively.

Canadian wages and unit labor costs

Earnings in the Canadian automotive industry averaged \$2.52 per hour. Although earning of Canadian automobile workers are about 75 percent of that of U.S. workers, smaller production runs and lack of economies of scale more than offset the wage differentials in unit labor costs.

U.S. investment in Canada

Investment by Canadian subsidiaries of U.S. companies in the Canadian automotive industry has been extensive and expanding in recent years, as indicated by the following table:

TABLE 5.—*Investment by subsidiaries of U.S. companies in the Canadian transportation equipment industry*

Year:	Cumulative value (millions)
1950.....	\$160
1957.....	398
1961 (estimated).....	593
1962 (estimated).....	613
1963 (estimated).....	678

The Canadian subsidiaries of the major U.S. automobile producers will probably invest an aggregate of \$135 million annually in Canada during the next 2 years. This represents 8 percent of their anticipated investment in North America during this period and 5 to 6 percent of their total worldwide investment (compared with third country investments which represent 25 percent of the worldwide figure).

United States-Canadian trade patterns

In terms of value of total U.S. trade with all countries and in all products, Canada is the single most important foreign customer for U.S. exports as well as our leading foreign supplier. Total U.S. exports (excluding special category exports), in 1964 amounted to \$24.4 billion, of which \$3.7 billion, or about 20 percent, went to Canada. Total U.S. imports (general imports) in 1964 were valued at \$18.7 billion, of which Canada supplied \$4.2 billion, or 23 percent. The result was an overall trade surplus of about \$500 million in the trade with Canada in 1964.

On the Canadian side, the United States generally accounts for 65 to 70 percent of Canadian imports and about 55 percent of Canadian exports.

TABLE 6.—U.S. foreign trade in automotive products, total and with specified countries, 1964

[In thousands of U.S. dollars]

Country of destination	Exports from United States ¹			Imports into United States ²			Export balance, total
	Passenger cars ³	Trucks and buses	Parts and accessories	Total	Trucks and buses	Parts and accessories	Total
Canada.....	45,435	15,257	983,442	654,124	9,562	4,454	57,735
European Economic Community total.....	32,459	9,960	63,137	105,556	423,533	7,865	466,062
West Germany.....	6,854	3,837	11,169	18,960	374,479	34,914	406,062
France.....	4,022	3,727	13,261	21,000	33,385	29,724	410,276
Italy.....	1,116	1,789	6,645	9,550	16,289	2,775	84,348
United Kingdom.....	1,970	269	20,508	21,747	98,766	1,570	16,918
Sweden.....	10,146	571	16,046	27,063	13,066	12,863	112,519
Japan.....	9,097	290	4,221	13,608	15,354	1,776	14,879
Other countries.....	208,533	320,603	379,600	908,536	15,136	2,096	19,637
Total.....	306,740	347,250	1,076,954	1,730,944	560,465	95,505	671,116

¹ Figures include new and used vehicles.² Passenger cars: Includes exports of both new passenger cars and chassis (schedule B-79070) and used passenger cars (schedule B-79075). Used vehicles accounted for 3 percent of the total.

Note that when making comparison with import statistics: Imports of chassis are not classified with vehicles of the same type but together with bodies as imports of parts under TSUS 692.20 and 692.22.

Trucks and buses: Includes exports of trucks, buses, and various special purpose vehicles, both new and used, and their chassis, comprising schedule B numbers 79011, 79015, 79019, 79023, 79027, 79031, 79033, 79035, 79039, 79043, 79053, 79063, 79080, 79113, and 79130.

See note above.

Parts and accessories: Includes the following schedule B numbers: 20861, auto V-type fan belts and belting; 5458, asbestos clutch facing; 54593 and 54597, asbestos brake lining; 70130, batteries; 70709, auto radios; 70903, spark plugs; 70922, starting lighting and ignition equipment; 76910, ball bearings; 79920, roller bearings; 79136, trailers, truck or truck-tractor; 79139, commercial trailers; 79142, parts and accessories for commercial trailers; 79151, diesel engines for assembly; 79153, gasoline engines for assembly; 79156, auto engines, for assembly; 79159, diesel truck and bus engines, for replacement; 79162, gasoline engines, for replacement; 79165, bodies for assembly; 79168, leaf springs; 79170, shock absorbers; 79261, parts and accessories, not elsewhere classified, for assembly; 79262, parts and accessories, not elsewhere classified, for replacement, or manufacture

into larger components: 79271, heaters, air conditioners, specially fabricated parts not elsewhere classified, except for assembly; and 79272, accessories, not elsewhere classified, and specially fabricated parts not elsewhere classified, except for assembly. Excludes tires and other rubber products.

³ Passenger cars: Includes TSUS 692.1020 passenger cars, new and 692.1040, passenger cars, used. Imports of used cars are negligible, except from Germany (\$12,660,000) and the United Kingdom (\$342,000).

Note that when making comparisons with export statistics, chassis imports are classified together with bodies, under TSUS 692.20 and 692.22 as auto parts, but exports of chassis are classified with vehicles of the same type in schedule B-79011 to 79075. Trucks and buses: Includes TSUS 692.0520, trucks; 692.0540, buses; 692.1060, motor vehicles, other than passenger; and 692.15, special purpose vehicles (cranes, wreckers, concrete mixers, etc.).

See note above.

Parts and accessories: Includes 660.4430, engines (piston type) for road vehicles; 652.5500, springs for motor vehicles; 653.0020, generators; 653.0040, starter motors; 653.6060, spark plugs; 653.6080, other electrical; 662.2000, chassis and bodies for trucks and buses; 662.2200, chassis and bodies for passenger cars; 662.2500, parts, not elsewhere specified; 711.9020, taximeters; 711.9040, parts for taximeters; and 711.9200, speedometers. Excludes tires and other rubber products.

Source: U.S. Department of Commerce, Bureau of the Census; U.S. Automobile Manufacturers Association.

U.S. automotive trade with all countries

The United States is a net exporter of automotive products worldwide. In 1964, U.S. exports of these products totaled more than \$1.7 billion while imports were less than \$0.7 billion, resulting in an export balance of about \$1 billion. In bilateral automotive trade, the United States shows a deficit with most major producers, such as the EEC, United Kingdom, and Japan; however, in the case of Canada, the United States enjoys a sizable automotive trade surplus. In automotive product trade with the rest of the world, of course, the United States also maintains a substantial export balance.

U.S. automotive exports to all countries have risen considerably in recent years: from \$1.3 billion in 1962 to \$1.7 billion in 1964. Exports of vehicles expanded from \$500 to \$654 million during these 2 years, while parts exports increased from \$796 to \$1,076 million.

Following some fluctuation in the early sixties, U.S. automotive imports also rose substantially in this period; from \$525 million in 1963 to an estimated \$670 million in 1964. These figures are not strictly comparable in view of 1963 tariff reclassifications.

United States-Canadian automotive trade

Two basic aspects of United States-Canadian automotive trade are a sizable U.S. trade surplus with Canada, and a greatly expanded trade in both directions in recent years.

The automotive trade pattern between the United States and Canada is unique. The bulk of United States-Canadian trade in both directions is in automotive parts and accessories, most of which are for use in the production of new vehicles. This is in sharp contrast to U.S. automotive trade patterns with other countries, and the general world automotive trade pattern.

For example, in 1964 U.S. imports of automotive products from the EEC totaled \$466 million, of which parts accounted for \$35 million. These parts, which amounted to a very small proportion of the trade, were strictly for use as replacement parts for repair of European vehicles in the United States. Similarly, parts imports from the United Kingdom—again destined for replacement—amounted to only \$13 million out of total automotive imports of \$113 million from the United Kingdom.

TABLE 7.—United States-Canada automotive trade¹

(In millions of U.S. dollars)

Year	Canadian imports from United States		Canadian exports to United States		Balance, total
	Automotive products, total	Parts and accessories	Automotive products, total	Parts and accessories	
1960-----	410	319	7	4	403
1961-----	383	314	10	8	373
1962-----	480	406	12	9	468
1963-----	563	517	33	20	530
1964-----	635	572	89	68	546
	(654)	-----	(59)	-----	(596)

¹ Inasmuch as U.S. trade statistics are not strictly comparable over the period because of classification changes resulting from changeover to the TSUS series, this table is based on Canadian trade statistics. The Canadian statistics are not fully comparable with the U.S. figures (as illustrated by the TSUS figures for 1964 shown in parentheses).

Source: Dominion Bureau of Statistics, "Trade of Canada."

Secretary CONNOR. The Canadian Government has long been concerned with the relatively low ratio of production in Canada to consumption in Canada, and has adopted a number of measures intended to boost Canadian production. For example, until the agreement was entered into, it imposed a duty on imports of finished vehicles of 17½ percent and duties on original equipment and replacement parts of up to 25 percent. It also imposed a "content requirement" under which finished automobiles produced in Canada were in effect re-

quired to be 60 percent of Commonwealth origin. More recently the Government of Canada instituted a duty remission plan, under which duties paid on automotive imports into Canada were rebated to firms which increased their automotive exports from Canada. This was effective in increasing automotive exports from Canada to the United States sharply (from \$30 million in model year 1963 to \$68 million in 1964). However, this duty remission scheme provoked the concern of the U.S. parts producers, who instituted a demand for imposition of countervailing duties under section 303 of the Tariff Act of 1930.

In the light of these circumstances, it seemed clear that the Government of Canada was determined to increase automotive production in Canada—either by continuation of the duty remission scheme, or if that were nullified by the imposition of countervailing duties, by other means such as increasing the Canadian content requirement, or increasing import duties. Each of these techniques perhaps offered some prospect of achieving the Canadian goal, but only at the expense of cutting into U.S. automotive exports to Canada.

At the same time it also seemed possible that the Canadian objective could be achieved by other means which would be less detrimental to U.S. production. The American and Canadian automotive markets are quite similar, and thus have a potential for integration into a single market. For example, well over 90 percent of the motor vehicles assembled or manufactured in Canada are produced by the Canadian subsidiaries of the major U.S. manufacturers. Facilities owned by them on both sides of the border produce vehicles and components that are fully interchangeable. Of all cars purchased in Canada in 1963, 91 percent were U.S.-type models.

The model lines offered in Canada provide a variety nearly equal to that available in the United States. At the same time, costs and prices in Canada are significantly higher than in the United States. No doubt this is due partly to the protective measures taken by the Canadian Government for its automotive industry, but it is also due in considerable measure to the great disparity in production volume between the United States and Canada. As a result of its comparatively small size, the Canadian industry has not been able to achieve the large economies of scale that are characteristic of the American industry. This problem has been greatly complicated by the fact that Canadian consumers nevertheless demand multiple model lines to choose from. For example, in 1964 Ford Motor Co., in its 1 assembly plant in Canada made some 71 different models of 5 distinct passenger lines. By contrast, just over the border Ford's River Rouge assembly plant produced only three models of the Mustang line.

In short, the structure of the Canadian auto industry as a separate independent industry, not integrated with U.S. production, has resulted in its being also a relatively high-cost, low-volume industry. It is this aspect of automotive production in North America which the United States-Canadian Automotive Products Agreement is aimed at. The purpose is to eliminate barriers to rationalized, low-cost production and thus ultimately to expand the North American automotive industry market for the benefit of both Canada and the United States. I believe the agreement gives reasonable promise of increasing consumption in Canada to such an extent that our existing export market can be preserved and at the same time the Canadian goal of increasing automotive production in Canada can be achieved.

Under Secretary Mann has discussed the main features of the agreement. However, it may be useful to comment briefly on those aspects of the overall arrangement which are designed to prevent the Canadian industry from being submerged by the transition to duty-free trade in automotive products. There are three such aspects: (1) The benefits of duty-free importation are limited to imports by or for the use of Canadian vehicle manufacturers who keep their proportion of assembly operation to sales in Canada and the dollar value of their production in Canada up to the 1964 model year level. In addition, the Canadian producers have agreed to increase Canadian value added, (2) in proportion to the increase in their sales in Canada, plus (3) by a flat additional amount for all companies of approximately \$240 million during model year 1968.

The effect of these provisions will be to maintain and in fact increase the level of Canadian production. However, I do not expect that our own exports to Canada will drop as a result. On the contrary, I am satisfied that it is reasonable to project a continuing growth in the Canadian automotive market sufficient to absorb the projected increase in Canadian production without reducing our net favorable balance of trade with Canada. In the long run Canadian consumption should increase substantially both as a direct result of the elimination of import duties between the United States and Canada, and as an indirect result of thereby stimulating more efficient use of existing and future plant capacities. Implementation of the agreement should lead to greater economies of scale in Canada, by making possible concentration of production of fewer models in each plant. At the same time, the removal of tariff barriers will allow the Canadian companies to supply their customers with a full range of other models from American plants. This increased efficiency resulting from these developments and the savings in import duties, should make possible lower prices and an expanding market.

The U.S. parts industry should also benefit from this program, both immediately as a result of the termination of the duty remission scheme, and in the long run as a result of the projected increase in total vehicle sales in the North American market.

While the overall outlook for the U.S. automotive industry, both in the near term and in the long run, has been enhanced as a result of the agreement we must, of course, reckon with the possibility of dislocation for particular firms and groups of workers, resulting from specific shifts within the general pattern of trade and production. Therefore the legislation before you prescribes criteria for determining the eligibility of firms and workers to receive the adjustment assistance benefits provided for under the Trade Expansion Act of 1962.

Secretary Wirtz will discuss these provisions in detail with you. I would like to state simply that I am satisfied they provide a proper means of meeting the adjustments assistance needs of firms and workers whose operations may be dislocated as a result of the agreement.

In conclusion, let me repeat that through this agreement Canada has opted to move in the direction of a single North American automotive industry, and away from a maintenance of a separate industry protected by high tariffs, with consequent higher costs and prices to the Canadian consumer. This seems to me a step in the right direction from the United States as well as the Canadian point of view, and

I therefore urge congressional approval of this proposed implementing legislation.

Thank you, Mr. Chairman.

Mr. KING. Thank you, Secretary Connor.
Secretary Wirtz.

**STATEMENT OF HON. WILLARD W. WIRTZ, SECRETARY OF LABOR;
ACCOMPANIED BY HERBERT N. BLACKMAN, ACTING CHIEF,
DIVISION OF FOREIGN ECONOMIC POLICY**

Secretary WIRTZ. Mr. Chairman, and members of the committee, I have a statement here which if it is the desire of the committee, I should like to include in the record and then summarize in shorter form.

Mr. KING. Without objection, that will be done.
(The statement follows:)

STATEMENT OF HON. W. WILLARD WIRTZ, SECRETARY OF LABOR

Mr. Chairman and members of the committee, the 1 million workers in the United States engaged in the manufacture of automotive equipment, parts, and accessories are one measure of the importance of this industry to our economy. The jobs of many of them would have been threatened by the developments which would almost certainly have followed the imposition of countervailing duties on Canadian automotive exports to this country. I concur fully in the testimony of Under Secretary Mann and Secretary Connor that the solution reached in the Automotive Products Agreement between the United States and Canada, and reflected in H.R. 6960, will benefit workers, firms, and consumers in both countries.

I shall address myself primarily to the question of adjustment assistance for firms and workers.

For the record I am submitting, with your permission, a statement on certain economic aspects of the U.S. auto industry having particular relevance to the labor situation.

As Canadian output increases we will find that our market for parts will also increase; further, as Canadian demand expands and the industry becomes unified, our net exports of finished vehicles to Canada should also become greater.

However, as the barriers to a more unified North American industry go down, there will inevitably be readjustments in production both within and between the two countries. Some of these adjustments may cause temporary dislocations in individual plants and for individual groups of workers. Since the removal of these trade barriers is in the interest of the Nation as a whole, we have a clear obligation to provide assistance for any firms or workers adversely affected. This obligation was recognized in the adjustment assistance provisions of the Trade Expansion Act of 1962.

The forms of adjustment assistance provided in the Trade Expansion Act of 1962 are incorporated in H.R. 6960. The standards for determining eligibility to apply for assistance have been framed to meet the unique circumstances of the action taken and the particular characteristics of the industrial complex with which we are dealing. The facts are these:

1. The agreement is designed to eliminate barriers to the optimum efficiency of a single industry producing and selling the same products on both sides of the United States-Canadian border. It offers the unusual opportunity for two-way free trade with our immediate neighbor in a major manufactured product.

2. Dislocation may result not only from increased imports, the usual cause for concern in trade legislation, but also from internal shifts within the industry in production and marketing patterns.

3. H.R. 6960 provides for an immediate, and in fact retroactive, reduction to zero of the duty on a selected class of products. This contrasts with the staging of duty reductions over a period of years, which is itself a type of adjustment mechanism.

4. The process of adjustment to this action will in all likelihood be completed in a relatively short span of years.

We have reflected these unique circumstances in the proposed standards for eligibility to apply for assistance in the provision that determinations in this matter be made by the President.

Title III of H.R. 6960 deals with these questions.

The bill provides that the types and amounts of adjustment assistance provided in the Trade Expansion Act shall be available to those firms and workers who may be dislocated as a result of the operation of the agreement. Where dislocation occurs, section 302 (b) provides for a transition period of 3 years, a set of economic conditions, the meeting of which creates a presumption that the operation of the agreement has been the primary factor in causing the particular dislocation.

These conditions are, in brief, a decrease in U.S. output of the automotive product produced by the firm (or appropriate subdivision), and a change in the pattern of trade with Canada in this product. The latter change may take the form of an increase in imports of the product from Canada or a decrease in exports of the product to Canada.

In the case of a group of workers, dislocation will normally be assumed when unemployment or underemployment in a firm, or an appropriate subdivision, affects 5 percent of the workers or 50 workers, whichever is less. At the same time it is recognized that a large number of workers are in plants with fewer than 50 workers. Accordingly, there may be cases where the layoff of as few as three workers in a firm, or appropriate subdivision, would constitute a significant number or proportion of the workers for the purpose of determining dislocation.

In the case of a firm, dislocation means injury of a serious nature, which may be evidenced by such conditions as idling of productive facilities, inability to operate at a level of reasonable profit, or unemployment or underemployment.

The simultaneous evidence of dislocation, an appreciable decrease in U.S. production, and an appreciable adverse change in the balance of trade in the product will, in most instances, provide the basis for an affirmative determination of eligibility to apply for assistance. Dislocation arising from factors other than the operation of the agreement is unlikely to bring into simultaneous play the specified conditions.

We recognize, however, that no set of economic criteria can be perfect. There is always the possibility that a specific dislocation may have resulted from conditions unrelated to the agreement. Accordingly, section 302(c) provides that if the President finds the criteria are met he shall certify the firm or group of workers as eligible to apply for adjustment assistance unless he determines, as a result of his investigation, that the operation of the agreement has not been the primary factor in causing the dislocation.

On the other hand, the economic criteria may not cover all meritorious cases. Section 302(d) covers such situations. If the President finds that dislocation has occurred but that either or both of the economic conditions have not been met, section 302(d) provides that he shall continue his investigation to determine whether the operation of the agreement has nevertheless been the primary factor in causing the dislocation. This could occur, for example, if there were a shift in the product-mix across the border within an individual firm resulting in dislocation, but not in a net change in trade.

It is intended that the "primary factor" would have to be a factor greater in importance than any other single factor in a given case. But it would not have to be greater than all the other factors combined or any combination of them.

Section 302(b) of the bill requires an appreciable change in each of the economic conditions. Normally a change of 5 percent in production, imports, or exports would be considered "appreciable" for this purpose. But we recognize that there will be cases where small percentage changes will be large in absolute terms and therefore appreciable.

The provision in the bill that determinations with respect to eligibility to apply for adjustment assistance shall be made by the President is responsive to the unique and temporary nature of the problem. It is specifically provided that the President may delegate his authority to appropriate officials.

The certification of eligibility to apply for adjustment assistance does not, of course, mean that individual workers will automatically get the benefits prescribed in the Trade Expansion Act.

In order to be eligible to receive adjustment assistance, the individual worker must meet State requirements regarding availability for work. He must qualify

as a member of the certified group of workers and his unemployment must have commenced within the periods set forth in the act. He must also have been employed in dislocated firms for at least 26 of the 52 weeks immediately prior to his layoff, and employed for at least half of the 3-year period prior to his layoff. Since the duty changes provided by the bill may be retroactive to January 1965, the assistance provisions also have similar retroactive effect.

The worker assistance allowances provided for in H.R. 6960 are the same as those established by the Congress in the Trade Expansion Act of 1962, for workers adversely affected as a result of tariff changes. This assistance includes cash readjustment, training, and relocation allowances. The cash readjustment allowances will be 65 percent of the worker's average weekly wage or 65 percent of the national average weekly manufacturing wage, whichever is less. Cash readjustment allowances will normally be available for a period of 52 weeks but can be extended for a limited period in order to complete training courses or if the worker was over 60 when he was separated. The worker is also to have the full testing, counseling, training, and job placement assistance. In certain cases, if he so desires, he may receive monetary assistance for relocation. These allowances are not unemployment insurance as such.

As stated by this committee in its report on the Trade Expansion Act of 1962, adjustment assistance is "in the nature of an adjustment to conditions brought about by removal of prior job protection and is not unemployment insurance." Unemployment insurance was designed as a wage-related income maintenance program for limited periods of unemployment after which the workers would generally be reemployed in jobs which were the same as, or reasonably comparable to, their prior jobs. Trade readjustment allowances, in contrast, recognize that when a change in Government policy removes the protection afforded by tariffs the resulting unemployment can be of a more permanent nature.

If a comparison were to be made between the amounts of trade readjustment allowances available to an average worker with the amounts which would be available to him under the State unemployment insurance programs, it would be found that, in most cases, the readjustment allowance is both higher in amount and extended over a longer period of time. The full trade readjustment payments under existing law would come from Federal funds. But it may be said that the amounts in excess of unemployment insurance benefits are a reflection of the particular cause of the dislocation.

Again, quoting from the committee report, "the scale of trade readjustment allowances is appropriate in view of the fact that the finding that the unemployment was caused by increased imports resulting from the removal in whole or in part of tariff protection implies that continuation of the prior tariff would have provided full job protection."

Financial, tax, and technical assistance may be made available to dislocated firms. They may receive direct Federal loans or Federal participation in, or guarantee of, private loans. Firms may be given the opportunity to carry back current losses for income tax purposes for 5 years instead of 3 years. Firms may also be provided with technical assistance in order to develop and carry out effective adjustment proposals.

Section 304 of the act provides authority for appropriations to implement this legislation. In view of the anticipated expansion in the consumption and production of automotive equipment in the unified North American market, it is expected that over a period of time there will be a net increase in jobs in this country attributable to the operations of the agreement. However, it is recognized that there may be temporary dislocation or cases in which adjustment assistance will be required. There will obviously be some dislocations as shifts are made to take advantage of the opportunities for efficient operations in the industry offered by the agreement. At an appropriate time, and taking account of the fact that the elimination of barriers and resulting dislocations may be retroactive to last January, we will submit to the Congress a request for necessary funds.

Title III provides authority to assure the availability of needed information (sec. 302(j)), and to safeguard confidential business information (sec. 302(k)). Section 303 of the bill also provides that the President will make appropriate recommendations to the Congress with regard to adjustment assistance which may be required incident to any new agreements which may be entered into under the legislation.

In conclusion, I refer to President Johnson's letter to the Congress transmitting this bill:

"In my judgment, the agreement will benefit both Canada and the United States, and the automotive industry and automotive workers in both countries.

However, we recognize that adjustments in an industry of such size could result in temporary dislocation for particular firms and their workers."

H.R. 6960 provides the safeguards for workers and firms which are necessary and desirable in the circumstances. I urge support of its enactment.

MANPOWER HIGHLIGHTS OF THE NORTH AMERICAN AUTOMOTIVE INDUSTRY

The production of automotive vehicle parts and accessories in the United States requires the services of approximately 1 million workers. This employment is divided into three main groupings:

1. The assembly of complete vehicles.
2. The production of parts in industries whose major output is for the automotive industry.
3. The production of parts and accessories in industries whose major output is not automotive products—for example, radios, storage batteries, ignition equipment, and glass.

In 1964 the section of the automotive industry producing complete motor vehicles employed slightly less than 315,000 workers in about 170 plants. Most of the plants were extremely large complexes devoted to the assembly of parts into complete passenger vehicles.

The production of bodies and parts gave employment to some 450,000 people in over 1,900 plants (table 1). Although almost 80 percent of automotive parts employment was in large plants (over 500 workers per plant) there are more than 1,500 establishments with fewer than 100 workers each. Despite the preponderance of employment in the very large plants, almost half the plants in the automotive industry had less than 20 workers.

TABLE 1.—United States

ALL EMPLOYEES

Industry	1958	1959	1960	1961	1962	1963	1964
	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Motor vehicles and equipment (total).....	608.5	692.3	724.1	682.3	691.7	745.2	771.1
Motor vehicles.....	242.2	272.5	295.3	253.7	275.2	301.4	313.5
Passenger car bodies.....	54.7	60.5	65.9	56.2	61.1	61.1	58.2
Truck and bus bodies.....	25.4	28.8	30.9	29.6	30.8	33.0	33.8
Motor vehicle parts and accessories.....	267.7	309.4	313.0	276.3	304.2	328.3	343.3

PRODUCTION WORKER AVERAGE HOURLY EARNINGS

Motor vehicles and equipment.....	\$2.55	\$2.71	\$2.81	\$2.86	\$2.99	\$3.10	\$3.21
Motor vehicles.....	2.62	2.79	2.89	2.95	3.08	3.20	3.31
Passenger car bodies.....	2.71	2.82	2.98	3.06	3.19	3.31	3.38
Truck and bus bodies.....	2.15	2.29	2.38	2.42	2.51	2.55	2.60
Motor vehicle parts and accessories.....	2.52	2.68	2.76	2.82	2.95	3.07	3.18

PRODUCTION WORKER AVERAGE WEEKLY HOURS

Motor vehicles and equipment.....	39.7	41.1	41.0	40.1	42.7	42.8	43.0
Motor vehicles.....	39.7	41.2	40.9	40.6	43.5	43.5	43.5
Passenger car bodies.....	42.6	40.4	41.9	39.4	43.2	43.0	42.1
Truck and bus bodies.....	39.7	41.0	40.6	39.8	40.8	41.2	41.0
Motor vehicle parts and accessories.....	39.1	41.1	41.0	39.9	42.1	42.4	43.2

Source: U.S. Department of Labor, Bureau of Labor Statistics, "Employment and Earnings."

TABLE 1-A.—Motor vehicle and equipment industries reporting units and total employment by size, March 1964

Size of establishment (workers)	Complete vehicles				Bodies, parts, and equipment			
	Establishments		Employment		Establishments		Employment	
	Number	Cumulative percent	Number	Cumulative percent	Number	Cumulative percent	Number	Cumulative percent
0 to 9.....	33	20	116	(1)	566	29	2,585	1
10 to 19.....	17	29	251	(1)	358	48	5,066	2
20 to 49.....	13	37	433	(1)	382	68	11,639	4
50 to 99.....	7	41	472	(1)	214	79	14,724	8
100 to 249.....	13	49	1,833	1	156	87	27,208	14
250 to 499.....	11	56	3,725	2	98	92	36,023	22
500 to 999.....	10	61	7,212	4	55	95	39,163	31
1,000 and over.....	65	100	308,182	100	98	100	310,397	100
Total.....	169	-----	322,224	-----	1,924	-----	446,805	-----

¹ Less than 0.5 percent.

Source: Unemployment insurance data.

In addition to these 770,000 workers in industries whose major products are automotive equipment, there are approximately 200,000 to 250,000 others in nonautomotive industries producing products used in making automobiles. Since the economics of many establishments in these particular nonautomotive industries are geared to motor vehicle markets, they must be included in any general consideration of the economics of the automobile industry. We estimate that these workers are employed in about 10,000 different establishments (table 2).

The total industry thus accounts for about 1 million jobs or nearly 6 percent of total manufacturing employment. The million workers does not include indirect employment such as in the mills producing sheet steel for bodies nor does it include the workers involved in making such products as upholstery, nuts, and bolts.

The automobile industry, a leader in introducing continuous automatic production, is characterized by mass production, highly developed division of labor, and full use of conveyors and assembly lines. Economies of scale have been developed in the industry through long production runs and minimum machine down time for retooling. Therefore, small establishments and job shops with small volume orders are at a definite competitive disadvantage in this industry. The production process in automobile manufacture is considered to fall largely into the three stages of design, machining, and assembly.

The earnings of production workers in the motor vehicle and equipment industry are among the highest manufacturing. Average hourly earnings in 1964 were \$3.20, 18 percent higher than the figures for all durable goods manufacturing and 26 percent higher than the figure for all manufacturing. Approximately 7 percent of the all manufacturing payroll in 1963 went to automotive workers (table 1).

The unemployment rate in the motor vehicle and equipment industry was 3.4 percent in 1964, compared with 4.9 percent for all manufacturing. In 1963 the rate was 3.7 percent compared with 5.7 percent for all manufacturing.

TABLE 2.—Nonautomotive industries producing parts and accessories

SIC	Title	Employment in 1958	
		Industry	Automotive products
3011	Tires and inner tubes.....	89,400	71,000
3461	Metal stampings.....	125,600	28,500
3429	Hardware ¹	88,200	26,000
3604	Engine electrical equipment.....	39,800	25,000
3211	Flat glass.....	21,200	15,000
3599	Machine shop products.....	115,500	13,000
3601	Storage batteries.....	14,900	10,500
3642	Lighting fixtures.....	47,300	7,100
3821	Mechanical measuring devices.....	50,000	4,500
3651	Radio and television receiving sets.....	66,500	4,200
3493	Steel springs.....	6,800	3,300
3641	Electric lamps (bulbs).....	21,500	2,800
3699	Fabricated rubber products ¹	119,600	4,850
Totals.....		¹ 806,300	² 215,750

¹ Not elsewhere classified.² In 1963 employment in these industries was 894,000; if the 1958 ratios of automotive products employment to total employment were still applicable, automotive products employment in 1963 was approximately 225,000 to 230,000.

Sources: Department of Commerce, Bureau of the Census, "1958 Census of Manufactures" and "1963 Census of Manufactures—Preliminary Report."

The majority of workers producing completed cars and trucks are engaged in highly repetitive semiskilled jobs such as assemblers and inspectors on the assembly line. Occupations which require substantially more skill and training and which employ fairly large numbers of workers include tool and die makers, electricians, machine-tool operators, and machinery repairmen.

Nearly all production workers in this sector are represented for collective bargaining purposes by the UAW. Over 40 percent of the workers are employed within the Detroit metropolitan area, and more than 50 percent are located in the State of Michigan. Other important concentrations of employment are Ohio, 8 percent; Wisconsin, 7 percent; California, 6 percent; Missouri, 5 percent (table 3).

Those establishments of the industry specializing in producing parts and components have little to do with the design or assembly stages of production, but concentrate on the machining stage. The manufacturer of the large variety of products in this segment of the industry involves virtually all the processes used in the metalworking field, including casting, forging, stamping, machining, heat treatment, plating, painting, assembling, welding, and inspecting. The integration of these operations varies from plant to plant.

TABLE 3.—Employment by State in the motor vehicles and equipment industry in 1963

State:	All employees (thousands)	State—Continued	All employees (thousands)
Michigan.....	338.5	Illinois.....	19.8
Ohio.....	92.6	Pennsylvania.....	16.2
Indiana.....	58.0	New Jersey.....	13.9
New York.....	45.2	All others.....	61.2
Wisconsin.....	42.1		
California.....	31.2		
Missouri.....	26.5	Grand total.....	745.2

Source: "Employment and Earnings Statistics for States and Areas, 1939-63," U.S. Department of Labor, Bureau of Labor Statistics.

In the parts and components segment of the industry there is a sharp distinction between the plants and subsidiaries of the major automobile manufacturers and the independents. Affiliates of the large companies have a more certain market for their product and benefit from the economies of larger production runs. The affiliates of the large automobile makers are becoming a larger portion of the parts industry. Both the large company affiliates and the independents produce for the original and the replacement market. The volume

of production of parts for assembly into motor vehicles is three to four times that for the replacement market. Nevertheless, production of replacement parts is substantial and provides a growing market for manufacturing establishments of the United States.

Average hourly earnings in the parts industry in 1964 were about \$3.18, 1 percent lower than the figure for all motor vehicle and equipment workers but 26 percent above the "all manufacturing" figure. Individual earnings in the parts industry have a much greater range than earnings in the motor vehicle industry. There is also a wide dispersion in hourly rates between workers in large plants and workers in small plants. Motor vehicles parts as here defined are principally metal and are shaped by a variety of metal-forming processes which require workers in a number of metalworking occupations. Most metal parts are produced by foundry workers, forge shop workers, machining workers, and operators of stamping and pressing machines. The industry also employs many workers in unskilled and semiskilled occupations. A 1963 survey placed nearly 40 percent of employment in custodial, material handling, and assembling occupations. The majority of workers in the parts industry are represented by the UAW. Other unions with important representation include the International Association of Machinists, the International Brotherhood of Electrical Workers, and the International Union, Allied Industrial Workers of America.

More than 40 percent of all employees in the parts industry work in plants located in Michigan. Other important concentrations of employment are Ohio, 17 percent; New York, 12 percent; and Indiana, 11 percent.

The automobile industry in Canada is structured similar to that in the United States. There are 17 companies producing motor vehicles in Canada, 6 of which produce passenger cars (5 of these are U.S. companies); the remaining make trucks and buses. Canada is the world's sixth largest consumer of automobiles and is a rapidly growing market. Sales in 1964 were estimated at 725,000 units. In the same year production in Canada reached a new high of 668,500 units. This production depends on the purchase of more than a half billion dollars' worth of original parts and components from the United States.

Both the automobile parts and component and assembly sectors of the Canadian industry are growing rapidly with employment averaging 38,000 in the assembly plant and 27,000 in the parts segment in 1964. Judged by either employment or output the automobile industry in Canada is appreciably less than one-tenth the size of the U.S. industry (table 4).

At the present time hourly earnings of Canadian automobile workers are approximately 20 to 25 percent lower than the comparable earnings of U.S. workers. However, U.S. labor costs per unit of output—whether it be the complete vehicle or a part—are undoubtedly considerably lower than comparative Canadian unit labor costs. This is clearly demonstrated by the fact that, although the Canadian tariff on automobiles and equipment is three times the U.S. tariff, the United States has a very large favorable trade balance in this equipment with Canada.

TABLE 4.—*Canada*
ALL EMPLOYEES

Industry	1958	1959	1960	1961	1962	1963	1964
Motor vehicles and equipment (total).....	1,000 46.3	1,000 48.7	1,000 47.8	1,000 46.4	1,000 50.2	1,000 57.6	1,000 66.3
Motor vehicles.....	28.3	29.4	29.2	28.0	30.0	34.1	37.7
Motor vehicle parts and accessories.....	18.0	19.3	18.6	18.4	20.2	23.5	27.6

PRODUCTION WORKER AVERAGE HOURLY EARNINGS

Motor vehicles and equipment (in Canadian dollars).....	1.98	2.10	2.16	2.24	2.34	2.45	2.53
Motor vehicles.....	2.05	2.20	2.26	2.34	2.47	2.59	2.68
Motor vehicle parts and accessories.....	1.88	1.94	2.01	2.00	2.14	2.23	2.35

PRODUCTION WORKER AVERAGE WEEKLY HOURS

Motor vehicles and equipment.....	38.7	40.3	40.2	41.2	42.3	43.1	42.7
Motor vehicles.....	38.3	40.1	40.3	41.3	43.0	44.0	43.2
Motor vehicle parts and accessories.....	39.5	40.5	40.1	41.1	41.3	41.8	42.0

Sources: Dominion Bureau of Statistics, "Employment and Payrolls" and "Man-Hours and Hourly Earnings."

NOTE.—These data are comparable to the U.S. data in table 1. They do not include employment in establishments whose primary products are classified in nonautomotive industries.

Secretary WIRTZ. This also includes a statement covering economic matters.

I shall limit my testimony then to the material which is covered by title III of the proposed legislation. In short I will cover the provisions for the adjustment assistance arrangements which are included in the act.

This is a matter which is, in its general outlines, very familiar to the members of this committee because the provisions in H.R. 6960, parallel very closely the Trade Expansion Act in 1962 which was the subject of an extended discussion among us 3 years ago. So I will simply start from that reference.

The provisions for the benefits, for the adjustment allowances in the proposed H.R. 6960, are precisely the same as those in the Trade Expansion Act of 1962. There are differences in the procedures which are prescribed here and in some of the measures of the applicability of some of the 1962 provisions.

We are talking here about a unique situation where, different from the situations covered by the Trade Expansion Act, there is an immediate elimination of all of the tariff protection. There is the establishment, in effect of a single market, with the consequences perhaps of very rapid changes going beyond simply the effect of imports. There will probably be dislocations of a temporary nature within the industry resulting not only from imports but from exports and shifts within the industry itself.

I am in complete agreement with the statements which have been made by Secretary Mann and Secretary Connor that we do not anticipate, in the long run, a reduction in jobs or a reduction in the operation of firms. To the contrary, we expect an increase, an expansion. We recognize, at the same time, that there may be dislocations which

would affect particular firms and particular groups of workers and it is to that situation that the provisions of title III are directed.

In very simple explanation, the provisions in title III add up to this: there must be a finding first, and the bill places the authority in the President, of what the bill refers to as dislocation of the firm or group of workers. That is the starting point.

If it is determined that there has been such dislocation (and we would suggest certain measures for determining the dislocation), there must be next a consideration of whether this dislocation appears to result from the operation of this agreement.

In section 302(b), there are established a set of presumptions to the effect that if there has been a dislocation, measured for example by unemployment of a group within this industry, or dislocation as far as the firm is concerned, there shall first be a determination of whether there has been a change in the production picture as far as the United States is concerned. In section 302(b) (2) and (3) are the bases for the assumption that the change is related to the operation of the agreement.

We look where there has been a reduction in employment in a U.S. firm in this industry. We would look next to see if there has been a change in production and a change by way of increased imports into the United States from Canada or decreased exports from the United States to Canada. We would attempt to determine on that basis whether this reduction in employment or the reduction in the firm's business is traceable to this agreement.

It is recognized that we cannot in every case be sure from those particular measures whether the dislocation has resulted from the change in the import and export figures. Therefore, there is included in the bill section 302 (c) and (d) which provide first in section 302(c) that if there has been a dislocation and it is found—that is, if the President makes an affirmative determination—that there has been a dislocation with respect to a firm or group of workers, he shall promptly certify that as a result of the dislocation the firm or group of workers is eligible to apply for adjustment assistance, unless the President determines on the basis of other factors in the record that it is not traceable to the import or the export.

We refer to that as the "unless" clause. Even though there has been a dislocation and there has been a change in the production, and in the imports and exports picture, the President would not find that there was a case for adjustment assistance if he determined that there were other factors which explained the situation. Then in subsection (d) there is the converse provision that even though there is a finding that there has not been a change in the production, export and import totals the President would have authority nevertheless on the basis of other factors, to determine that there was an adjustment assistance situation here.

Now, if the simplification sounds complicated, I must refer again to the difficulty that we have had both in 1962, and this time with trying to identify those situations in which dislocation is traceable to the fact of the agreement.

The purpose of the section is to provide for adjustment assistance in those cases in which there is a diminution of employment or a diminution in business which is found to be a result of the change in the export-import picture. That is the simplified format.

Now where that finding is made, H.R. 6960 provides, as did the Trade Expansion Act in 1962, that there shall be benefits which are not unemployment compensation benefits. They are benefits based on this principle—that where, in the common interest and for the public good, as reflected in the 1962 provisions, there is a resultant diminution in business or employment that should be borne publicly. The provisions for the allowances here parallel the trade adjustment expansion allowances which are roughly in the amount of about \$65 a week. The Trade Expansion Act provides for the taking of 65 percent of the average weekly or 65 percent of the average manufacturing wage, whichever are lower. That would work out here to be about \$65 a week.

We have indicated in the analysis which accompanies the transmittal of the bill some guides for applying the sections. It provides that the change to establish eligibility to apply for adjustment assistance must be an appreciable change. We have suggested making part of the history of the legislation, that there must be at least a 5-percent change, less than that in those instances where it seems too large.

We have suggested comparison with the base period in 1964 in the making of the determination of whether there has been that appreciable change in the exports and imports. We are suggesting that in the case of groups of workers the provision should be applicable if there is a decrease in employment of as many as 50 workers or 5 percent of the employment, whichever may be the lesser number.

The Trade Expansion Act has been supplemented by regulations of the Tariff Commission and the other agencies involved, which have the effect of providing the cutoff of three employees. It would not apply to the dislocation of less than three employees.

The statement which I filed with the committee has spelled some of these matters out in still further detail.

I should like to make reference to only two or three other points. The adjustment assistance in the case of workers includes adjustment allowances and provision for a training program.

There is another section in title III, section 304, which provides for appropriations which would be used to carry out the authority and to implement this legislation. There are other provisions of a technical nature which provide for the protection by the President or his designee of whatever information is filed as part of these proceedings.

Mr. Chairman, I should like to rely upon the statements which Under Secretary Mann and Secretary Connor have made complementing and supplementing the statement which the President has made in bringing this matter to the attention of the Congress.

It seems to us a matter of very, very great importance, and in talking about the adjustment assistance provisions, I mean in no way to imply a reduction in U.S. operations. To the contrary, we expect an increase in U.S. operations and in jobs and in business here. The provisions of title III are to cover only those situations in which there might be a specific narrow dislocation.

Thank you.

Mr. KING. Thank you, Secretary Wirtz. That completes the statement of all three of you gentlemen.

Are there questions? Mr. Ullman?

Mr. ULLMAN. Mr. Chairman, I would like to direct some questions to the Secretary of Labor in order to clarify the legislative intent of the adjustment assistance portion of this legislation. I would like to make them rather specific questions.

Mr. Secretary, suppose in a plant of a thousand or more workers there were six or seven workers operating a group of machines in one area of the plant to produce a certain part. Suppose, further, that those workers were laid off because the employer moved the production of that part to Canada—either in order to meet Canadian content requirements or to avoid inefficient duplication of the same operation on both sides of the international border, or for some other reason related to the agreement with Canada.

Would that group of machines be considered an appropriate subdivision of the firm so that the unemployment of the workers affected would be considered to come within the definition of dislocation?

Secretary WIRTZ. We could consider that, on the basis of our present consideration, an appropriate subdivision under section 302(b)(2).

I would recognize in my answer there is a matter here for administrative determination. Our answer would be that that is the intended effect with reference to the appropriate subdivision.

Mr. ULLMAN. Thank you.

Then suppose that now the production of that same part in the U.S. plant was ended or reduced because with the elimination of the U.S. tariff, a Canadian parts supply firm was able to capture all or a substantial portion of the U.S. market for the part in question.

Am I correct in assuming that in that case also the group of machines would be considered an appropriate subdivision of the firm under the definition of dislocation?

Secretary WIRTZ. Yes, sir.

Mr. ULLMAN. It would?

Secretary WIRTZ. That is a correct assumption.

Mr. ULLMAN. Thank you, Mr. Chairman.

Mr. KING. Mr. Byrnes?

Mr. BYRNES. First, let me address this to Secretary Mann and also Secretary Connor.

Who really negotiated the agreement? What was the area of authority? Did the State Department do the negotiating and the Commerce Department sit in, or what?

Mr. MANN. We negotiated it together with representatives both from State and Commerce.

Mr. BYRNES. In order to get this in a proper perspective, this agreement was the outcome of a duty remission plan that Canada imposed in order to increase its automotive production, or at least the Canadian content, is that not right?

Mr. MANN. That was one of the immediate reasons for—

Mr. BYRNES. Isn't that why Canada adopted this remission scheme in order to increase the production of automobiles or automobile parts in Canada and not have so much imported from the United States?

Mr. MANN. I think that is one of the reasons; yes, sir.

Mr. BYRNES. Well, is there another reason?

Mr. MANN. That is the principal reason.

Secretary CONNOR. Mr. Byrnes, at the time this was negotiated, I was happily in another place but Mr. McNeill participated fully in the negotiations and I think he could expand on that.

Mr. BYRNES. What I am seeking to bring out is the background as far as Canada is concerned. What started the ball rolling?

Mr. McNEILL. The answer is an affirmative "Yes." The Canadians were dissatisfied with the share that their production represented of their total consumption of automobiles. They wanted to correct this situation by increasing both production and employment in Canada.

However, the brunt of this fell on the United States because the remission plan directed production toward the U.S. market.

Mr. BYRNES. Certainly. The purpose was to reduce the amount of automotive parts or automobiles coming from the United States into Canada, to increase, make up that shortage by an increase in the Canadian production.

Mr. McNEILL. Yes, I think that is correct. They wanted to get additional production and employment in Canada. The way they chose to do this, was through stimulating production for the export market. This would have had the effect you just indicated, that is, improving their net balance of trade with the United States without necessarily cutting down U.S. exports.

Mr. BYRNES. The Canadians wanted to increase their automotive production and sales.

Mr. McNEILL. Yes.

Mr. BYRNES. In fact, it is inherent in the duty remission plan that they put into effect that there should be an increase of Canadian exports to the United States; is that not right?

Secretary CONNOR. Yes, sir; that was an intended effect and in fact, it had that effect.

Mr. BYRNES. It was not just the Canadian market they tried to improve—and increase the Canadian content of the finished product—the heart of the matter was to encourage a greater export to the United States by the Canadian subsidiaries of American producers of automobiles.

Secretary CONNOR. Yes, sir; the intention of the Canadian plan was to stimulate increased production in Canada for the export market.

Mr. BYRNES. Now that action of Canada in the duty remission plan required, did it not, the imposition of a countervailing duty?

Secretary CONNOR. There is some question about that, Mr. Byrnes. There are two opinions and one is that countervailing duties would have been indicated but there was some question about it in the minds of some of the legal experts.

Mr. BYRNES. Is not the reason you started to negotiate and started to meet with the Canadians on this matter because of the fact that if some arrangement was not worked out you would have to impose countervailing duties and there would be repercussions that resulted from that action.

As I understood Secretary Mann's statement, he stated that you would start a sort of a trade conflict, if we didn't find some satisfactory solution.

Mr. MANN. Yes.

Secretary CONNOR. The countervailing duty provision certainly brought the Government face-to-face with the problem and led to the exploration of other alternatives, yes.

Mr. BYRNES. You sought to find some way to avoid imposing countervailing duties.

Secretary CONNOR. Not necessarily that, but looking to possible alternatives.

Mr. BYRNES. I do not want to quibble about words. The idea was the countervailing duty was not a very attractive device as far as either the State Department, I suppose, and also Commerce was concerned, and so you wanted to find something that would eliminate that device.

Secretary CONNOR. Yes, there was an opinion of Commerce and State that a better position was available.

Mr. BYRNES. Both of you.

Secretary CONNOR. Yes, exactly.

Mr. BYRNES. That is what you mean by exploring alternatives because you did not want to use this one if you possibly could avoid it.

Secretary CONNOR. By exploring alternatives, we were looking for a sounder solution.

Mr. BYRNES. All I wanted to get for the record is the history of how this matter started and then I would like to find out where we end up after the negotiations.

Mr. MANN. I would like to add to what the Secretary has said that while this was one factor, the dominant factors were our desire to protect our large export trade in automotive products to Canada and ultimately to expand that even more by reducing costs and improving efficiency and attaining all the good things that can come out of integrated industry. Our purpose was to do these things in the belief that they would be good for our economy and for our industry.

It was not just the desire to avoid an unpleasant stroke and counter-stroke. She had a much broader objective. Our basic position is that we think this is good for our trade and good for our balance of payments.

Mr. BYRNES. I assume that you are here with the feeling that you have avoided a bad situation and that this agreement is a good resolution of the problem and in the long run better for us.

I assume you would not be here if you did not think this was going to be better.

Mr. MANN. Yes, sir. Countervailing duties have been imposed when the law requires it. In cases where we can find a better solution than retaliation and counterretaliation, we are happier to do that.

Mr. BYRNES. You talked, Secretary Mann, about the desire to increase Americans exports. Maybe this would be a good point to discuss the agreement itself in terms of whether or not this really is a free-trade agreement. It seems in some quarters it has been labeled as free trade and yet I think we have to make it clear that there are certain very definite restrictions and conditions that will limit the amount of American exports into Canada; are there not?

Secretary CONNOR. Yes, sir. The agreement has been described as free trade in the sense of duty eliminators but this trade is limited initially on the Canadian side to manufacturers who undertake to produce part of their total output in Canada because of the disparity between the size and relative costs of the automobile industries in Canada and the United States.

It is not feasible to provide in the agreement for immediate removal of all restrictions on full integration of the automotive industry in both the United States and Canada, which is the objective of both countries.

The agreement explicitly recognizes this objective in the preamble. As the industry adapts itself to the new situation and as Canadian costs in certain areas approach more closely low-cost U.S. production, we anticipate that we will be able to remove remaining restrictions on the full integration of the industry.

The agreement itself contains built-in momentum toward removing the remaining restrictions. Article 4 provides for a comprehensive review of the progress toward meeting the goals of the agreement no later than January 1, 1968.

The Canadian limitations which are necessary in the short run will be carefully reexamined at that time.

Mr. BYRNES. There is not any contemplation that you will have further negotiations to remove restrictions prior to 1968, is there?

Secretary CONNOR. No, sir; not at the present time.

Mr. BYRNES. Between now and 1968 as far as the basic agreement you may have freed the automotive trade from duty but you have imposed at the same time as a substitute certain restrictions, have you not, on the exports from the United States into Canada?

Secretary CONNOR. I don't think the agreement itself, Mr. Byrnes, imposes these. Some restrictions that were in place have been removed but not all restrictions.

Mr. BYRNES. Isn't there an understanding either that in the agreement itself or on the outside that American exports into Canada will not exceed a certain percentage or a certain formula?

Secretary CONNOR. I think what you are referring to are the three points I mentioned in my testimony which taken together give Canada assurance that the 1964 level of production will be maintained and that if there is growth in the Canadian side of the automobile industry the Canadian manufacturers will participate in that growth in the same proportion that they had participated in production in the industry as it stood in model year 1964, plus a further undertaking that in addition, during model year 1968, the Canadian industry will produce an additional \$240 million of value.

These undertakings give some expectation that Canadian production will increase during this period.

Mr. BYRNES. All I want to do is to get a public understanding of what is involved here. My viewpoint is that in the normal sense in which we talk about free trade this agreement would not necessarily free up trade. It eliminates duties, but when you substitute a quantitative restriction you really have not changed the basic movement of trade.

Secretary CONNOR. This is a narrower definition of "free trade" than is often used.

Mr. BYRNES. You substitute restrictions on exports to Canada in lieu of a duty. The duty itself in most cases is always levied for the purpose of performing a restrictive function and limiting the amount of export or imports into a country; isn't that true? There are not very many duties that we are levying for revenue purposes?

Secretary CONNOR. I think often that is the case and I think that high duties in this particular trade have been levied by various countries in order to cut down the number of imports.

Mr. BYRNES. The traditional concept today is that duties operate as a restriction on imports or an equalization of competitive factors, rather than the old concept that duties were for revenue purposes?

Secretary CONNOR. Secretary Mann, do you want to comment on this?

Mr. MANN. Well, I agree that the principal purpose that most of us use these days is to protect domestic industry rather than to raise revenue.

Mr. KEOGH. Would the gentleman yield?

Mr. BYRNES. Yes.

Mr. KEOGH. Was not the access of free trade terribly changed by the Tariff Act of 1930?

Mr. MANN. Yes, sir.

Mr. KEOGH. And tariff for revenue was similarly drastically altered by that act of the 1930's?

Mr. MANN. Yes, sir.

Mr. KEOGH. All we tried to do in the meantime is get back in the direction from which we were taken by the enactment of the act.

Mr. BYRNES. I appreciate the gentleman's contribution.

Mr. KEOGH. Thank you.

Mr. BYRNES. I would like to know after the agreement is in effect what we get out of this, where do we stand as far as American exports are concerned?

Are we really better off than we were with the Canadian duty remission plan even assuming that we would not have had to impose a countervailing duty?

Secretary CONNOR. Mr. Byrnes, we think there are both immediate and long-term advantages to the United States as a result of this agreement. On the immediate side we think that there are six advantages. First, the agreement made it possible to revoke the remission plan and the Canadians did in fact revoke it immediately.

Mr. BYRNES. Do you mind if I interrupt you?

Secretary CONNOR. No, not at all, sir.

Mr. BYRNES. Would you say the benefit to us is that we do not have to impose a countervailing duty which would be objectionable to the Canadians?

Secretary CONNOR. No, sir; the remission plan itself was hurting the business of American parts manufacturers in that the Canadian remission scheme was stimulating exports to the United States in direct competition with domestic parts production. I earlier cited the great increase in parts imports that followed introduction of the Canadian program.

Second, regarding replacement parts, the remission plan was particularly objectionable to the U.S. replacement parts industry because under the remission plan credit was given for the export of replacement parts but no remission of duties was allowed on the import of replacement parts.

Third, the agreement got rid of the 60-percent-content provisions. They required that only if a manufacturer in Canada produced a product which was 60 percent or more of Canadian content, could he import duty free certain parts of a class or kind not produced in Canada.

This incentive led to uneconomic duplication of production facilities in Canada, high-production costs, and higher priced products. Under the agreement there remains only an absolute content requirement at the dollar figure for the base year for each company.

Its effect will, therefore, diminish each year as production increases.

Fourth, the agreement has already led to the elimination of Canadian duties on U.S. automobiles and parts for original equipment. This duty-free treatment is conditional upon the maintenance of certain minimum levels of production in Canada as we have discussed but it is already better than the previous situation.

Moreover, the agreement is subject to review no later than January 1, 1968, and it can be hoped that these limiting conditions may be further reduced.

The fifth immediate benefit is that the U.S. parts industry, which is already more efficient than the Canadian industry, will benefit by the opportunity to sell duty free into Canada, and, sixth, the agreement has ended the danger of a costly trade war with Canada and relieved the U.S. vehicle and parts manufacturers of the uncertainty which overhung them.

Now in the long run we see two additional benefits. First, the agreement offers the U.S. vehicle and parts manufacturers the valuable opportunity of integrating their United States and Canadian operations. They will no longer need to build or maintain uneconomic production facilities in Canada which duplicate existing production facilities in the United States.

They will be able to realize the full benefits of the economies of scale through longer production runs of fewer models in their Canadian plants. Lastly, as a long-term benefit, these economies when reflected in lower prices should stimulate further expansion of the Canadian market in which U.S. firms will participate as well as their Canadian subsidiaries.

So we think that there are some real benefits to the United States both immediate and long range.

Mr. BYRNES. Of course, as far as there is really no possibility of an immediate increase in the amount of exports from the United States into Canada, either in labor content or dollar value under this agreement; is there? In fact might there not even be a reduction in the amount that we would be shipping to Canada?

Secretary CONNOR. Mr. Byrnes, we think as a result of the agreement our dollar value of exports from the United States into Canada has been preserved, and we think that over the longer run there will be increases as the Canadian market rises, as we fully anticipate it will. The growth of the Canadian automobile market is now projected at about 8 percent a year. Through this agreement and the subsequent understanding that has been brought about we think that the American manufacturers will participate in their share of that growth.

Mr. BYRNES. All through the discussion of this matter particularly as reported in some of the Canadian papers and also suggested in other quarters there are restrictions over and above what are contained in the agreement that are sort of side agreements between the Government of Canada and the principal automobile manufacturers with subsidiaries in Canada as to the degree of the reliance that they will place on importing parts into Canada or exporting parts out of Canada into the United States.

To what degree is either the State Department or the Commerce Department privy to these agreements that apparently have been entered into?

Secretary CONNOR. Yes; the Canadian Government has entered into separate agreements with all Canadian motor vehicle manufacturers.

The Government representatives were informed of the negotiations as they progressed although they did not participate in them. The company letters were made public in Canada yesterday. As I understand it, they contained no surprises to the Government representatives, who had been kept informed of the progress.

As I understand also, the automobile manufacturers' representatives who will be testifying before this committee are prepared to go into these agreements with the committee in full length.

Mr. BYRNES. These are now public agreements rather than private agreements between the companies individually and Canada?

Secretary CONNOR. Secretary Mann can give the exact situation.

Mr. MANN. The letters were tabled in Parliament and therefore are public as of yesterday.

Mr. BYRNES. Since you say there were no surprises, they must have kept you advised as to what they were contemplating agreeing to; is that right?

Mr. MANN. The Canadian Government had kept us fully informed about the substance of the letters.

Mr. BYRNES. The Canadian Government?

Mr. MANN. Yes.

Mr. BYRNES. Do these contain further restrictions with respect to the American sales in Canada?

Secretary CONNOR. Mr. Byrnes, we mentioned in the testimony that there are these provisions which in effect attempt to get for the Canadian industry not only a maintenance of the status quo but also a proportionate share of production to sales in Canada and this additional amount of \$240 million value added in Canada.

As we understand it these undertakings that have been made by the Canadian motor vehicle companies to the Canadian Government carry out that situation and so far as we know that is the sense of the undertaking.

Mr. BYRNES. So that there were other understandings in addition to those in the intergovernmental agreement for the purpose of protecting Canada and for the purpose of accomplishing their objective, which I understand is to increase the amount of automotive parts production in Canada.

Secretary CONNOR. Mr. Byrnes, I think that it would be accurate to say that the Canadian Government worked out undertakings with each of the vehicle manufacturers in order to gain some substantial support on the part of manufacturers to the program that is contemplated in the agreement. Of course, the U.S. Government could not commit the American manufacturers or their Canadian subsidiaries to any such program.

This had to be something they would work out individually with the Canadian Government.

Mr. BYRNES. I understand that. I have also a feeling and it has been reported that the reason the Canadian Government entered into this agreement was also because they have these additional agreements which had at their heart the idea of a restricting of American sales in Canada.

Here is an article from the Globe Mail of Toronto early January where the reporter says that the Canadian Government is not prepared to enter an agreement with the United States until it can receive

an undertaking from General Motors that Canadian automotive manufacturers will be given an acceptable share of the U.S. market.

I gather from some of these reports that you had a dual negotiation going on in a sense, the formal one between governments, and the other between the Government of Canada and the individual manufacturer with subsidiaries in Canada.

Mr. MANN. Mr. Chairman, it is of course true that these undertakings in the letters were a factor in the Canadian Government's decision. As we both, Mr. Connor and I, stated in our statements we regard this as a transitional matter over a period of the next 4 years and we are hopeful that this can be eliminated.

Secondarily these are really not restrictions. They are undertakings to increase production in Canada for a short period and will then be phased out. This is a step-by-step process. We think it is a step forward rather than a step backward in that sense.

Mr. BYRNES. Prior to all this had the Canadian Government and the manufacturers entered into an agreement with respect to what they would try to do in terms of exports to the United States from their Canadian plants?

Mr. MANN. No. My understanding is, aside from the subjects we have been discussing, there have been no surprises, nothing new in these undertakings.

Mr. BYRNES. No, I am talking about prior to any of the negotiations, prior to the time when this problem rose, do you know whether there had been understandings and agreements which limited imports or try to encourage an increase in the exports from Canada?

Secretary CONNOR. I think Mr. McNeill can give us that background.

Mr. MCNEILL. The answer, Congressman Byrnes, is "No." Automobiles were manufactured in Canada by virtue of the features mentioned earlier by Secretary Connor; that is, very high tariffs on finished vehicles, 17½ percent, and on parts, clustered in the 20- to 25-percent area. These tariff restrictions, together with the effective requirement that there be a fixed 60 percent of Commonwealth content in vehicles sold in Canada was what maintained an industry in Canada.

The only feature that was new in recent years was the remission scheme which was a government program that flowed from the report by Dean Bladen's Royal Commission report. There were no other commitments.

Mr. BYRNES. The so-called side agreements there are of recent origin?

Mr. MCNEILL. Recent origin? Congressman, I don't think we should debate here in the semantical sense whether the understandings or undertakings of the vehicle manufacturers constitute restrictions in the sense of restrictions in the manner of tariffs.

The preamble of the agreement, as Secretary Connor has indicated, points ultimately in the direction of free trade in the automotive sector. It shall be our purpose in the U.S. Government in the 1968 discussions and in the discussions that follow to achieve that objective to the extent we can and as rapidly as possible so there can be such free trade at the earliest feasible date.

Mr. BYRNES. Is there any possibility the Canadians can come in before 1968 and say we want to increase the amount of the restrictions?

Mr. McNEILL. There are two answers. Since they are a sovereign foreign government, they can seek such increases in negotiations with the U.S. Government. I think the second answer, which is the practical answer and the real answer, is that they would not do so.

Mr. BYRNES. Then after 1968 would you contemplate negotiating these restrictions out of the agreement? Is that your point?

Mr. McNEILL. It would be our objective in 1968 to move in that direction, yes. I think the Canadian Government would be able to move to a legitimate restriction free trade arrangement only at such time as the great disparity that currently exists in the restrictive automotive structures are brought somewhat closer into harmony.

Whether this will occur by 1968 is a question we are not now able to answer.

Mr. BYRNES. We don't have anything that we can offer them that they will lessen their restrictions, do we? There is nothing we can offer Canada in 1968 as consideration or compensation for a relaxation of restrictions that are contained in the side agreements?

Mr. McNEILL. I think we will use in good faith, as will the Canadian Government, articles I and II of the agreement. Both Governments have subscribed to these principles, which simply state that as soon as possible it shall be the objective of both Governments to remove existing restraints.

Mr. BYRNES. I can't understand why the restrictions are completely for the protection of the Canadian industry and nothing for the protection of the domestic industry.

As I understand it, it is completely one sided and all we do for the domestic industry is to say that we will give you adjustment assistance with the U.S. taxpayer paying the bill.

Mr. McNEILL. Because of the small size of their industry, the Canadians believed that unlimited free trade would result in their industry being swallowed up by the much larger and more efficient industry south of the border. They therefore sought the assurances already referred to. We on our side saw no such need because of the size of our industry, its very great efficiency, its lower cost, and its great ability to compete.

Mr. BYRNES. Was the duty remission plan of the Canadians in violation of GATT?

Mr. MANN. Well, there is some legal question about that. I think the real answer to that, Mr. Byrnes, is that we have been in contact with our trading partners in GATT and we are confident that they will agree with us that this agreement does not adversely affect their trade in the United States and Canada markets in automobiles.

They produce not an American type automobile but different types, specialty types.

Mr. BYRNES. My question was not directed to whether this agreement was in violation of GATT. I think it is perfectly clear that if you have to get a waiver it is because it is in conflict at least with GATT. I was talking in terms of whether the duties of the remission plan that Canada has put in, which in a sense gave rise to this, whether that was in and of itself a violation of the general agreements on tariff?

Mr. MANN. We are not sure about that. It may have been, but I would not want to state positively that it was or that it was not.

Mr. BYRNES. There was a story out of Geneva in the New York Times, March 25, that GATT organization as spokesmen very definitely believe that the agreement that we have before us is in violation of GATT.

Your point is that you feel you can get a waiver from the other trading countries?

Mr. MANN. Well, as I have said earlier, we are not convinced that this particular agreement, which is really unique, which is not simply a tariff reduction but an operation to integrate two industries, violates the spirit of GATT.

We are prepared, providing this bill before the committee is approved by the Congress, to enter into similar agreements with other countries and we don't anticipate any great difficulty in GATT.

Mr. BYRNES. Well, what about the most-favored-nation clause?

Mr. MANN. I would not want to state here Mr. Chairman—

Mr. BYRNES. I don't want to prejudice your case.

You asked for authority in this legislation to negotiate similar agreements with other countries.

Mr. MANN. Yes, sir.

Mr. BYRNES. Is it contemplated that you will negotiate as we have done in the Canadian situation or is it contemplated that there will be a unilateral agreement?

Mr. MANN. We don't have any plans at the moment for making a similar agreement with other countries but if we did develop them it would be on a bilateral basis.

Mr. BYRNES. So that other countries also would have the potential of a restrictive device in order to assure that the other country with whom we were bargaining was amply protected, while we would keep our fingers crossed and hope that we would come out all right.

Mr. MANN. No, no; I hope Mr. Byrnes, we only made those agreements which suited our interests. You understand that these restrictions would be necessary only in the case where you had a high cost, small, inefficient industry which might literally disappear if you did not have provisions for a transitional period. If we were to negotiate with a highly industrialized country such as Germany there would be no need. For the same reason we did not need them on our side in this case. We are large, highly efficient, with low cost and high quality.

Mr. BYRNES. What I am getting at is that you enter into these agreements and then proclaim that we are free trade conscious and we are going to eliminate our duties. What does this mean? Are we going to let the European producers continue restrictive conditions such as horsepower, taxes, and all the rest that are just as much a restriction to free trade, if not more of a restriction, than the duty?

I am just wondering whether those factors should be considered in any such negotiations.

Mr. MANN. We hope to continue our efforts to reduce those and other types of trade barriers. We would not enter into a new agreement under this legislation except on the basis of mutual benefit.

Mr. BYRNES. You have not shown much progress up until now, although we have been assured that you are making progress. We were assured of that when we enacted the Trade Agreements Act a few years ago. That was one of the "sore thumbs" that stood out as

a restriction on trade that certainly meant more in terms of stopping the free flow of goods than any of the duties that were imposed.

I would think that we ought to put a little pressure on some of those cases, and particularly if the authority is for you to negotiate in the automobile industry with some of the other countries and some of the other producers and suppliers.

Secretary WIRTZ, just let me ask this briefly on the adjustment assistance. When did we enact adjustment assistance, 1962?

Secretary WIRTZ. 1962.

Mr. BYRNES. Has any adjustment assistance been granted under that act?

Secretary WIRTZ. None.

Mr. BYRNES. Is that why we need a special technique for this bill because no one can get assistance under the Trade Agreements Act?

Secretary WIRTZ. I do not think so, Congressman. I would not for a moment suggest that it would not enter into the background of this problem at all. We are faced here with, what we felt in the analysis of the problem, considerations going substantially beyond those of the Trade Act.

You have this very sudden impact of very considerable proportions which can affect firms and workers not only as a result of imports, but of exports or a shift in the product mix and in the market. The suggestion does reflect the unique quality of this particular situation and the large business and labor elements which are involved.

Mr. BYRNES. You do recognize that in this agreement you have the potential of an adverse effect on certain aspects of American production and certain of American workers?

Secretary WIRTZ. Yes.

Mr. BYRNES. An impact apparently absent as far as the Canadian situation is concerned. Their situation is going to be as good after the agreement as it was before, if not somewhat better.

Secretary WIRTZ. I should agree with the first part of your question but have some question about the second part. As far as the net effects are concerned, we envisage an increase, that would be both in Canada and in the United States. Your first statement suggested that we anticipated certain particular—I don't know how you put it—but certain particular dislocations. I see a net increase in jobs but I see some dislocation in particular cases, and I think that would be true in Canada as well as in the United States.

Mr. BYRNES. Under the Trade Agreements Act the Tariff Commission had to find really in a sense that the industry was adversely affected.

Secretary WIRTZ. There are various provisions and the answer would not be categorically "Yes" to what you say.

Mr. BYRNES. Can you particularize it more?

Secretary WIRTZ. That is the principal difference. We try to do it where it is necessary. To take general criteria in the net import-export situation but also to permit particularization.

Mr. SCHNEEBELI. Have you had any requests for adjustment assistance?

Secretary WIRTZ. There are three different categories of such requests for adjustment assistance. In total, the 3 categories would come to 19.

Mr. SCHNEEBELI. They represent large employers?

Secretary WIRTZ. Most of them have not represented large employers.

Mr. SCHNEEBELI. Then a small number of employees?

Secretary WIRTZ. In many cases there have been a comparatively small number of employees. There are two classes of cases. Our conversations so far refer to those involving particular firms and particular groups of employees, and the highest number of employees involved is 650 in the case involving the iron ore miners in Fairfield, Ala. There have also been a number of cases involving industries. Those employee numbers are not very realistic and in a number of cases they are not even available as far as the record is concerned.

In general, Mr. Schneebeli, they have involved small numbers of employees.

Mr. SCHNEEBELI. Is there any reason why they were denied?

Secretary WIRTZ. I would not be sufficiently familiar except to say that the findings in those cases has been that there has not been dislocation resulting from the action referred to.

Mr. SCHNEEBELI. Thank you.

Mr. BYRNES. It is almost impossible to prove injury. I think that is the answer, is it not? I should not ask you, Mr. Secretary.

Secretary WIRTZ. It has proved a difficult experience.

Mr. BYRNES. Yes.

I think that is all.

Mr. KING. Any further questions?

Mr. WATTS. Mr. Chairman.

Mr. KING. Mr. Watts.

Mr. WATTS. These agreements that you referred to made by the automobile manufacturers, are they a joint agreement of all automobile manufacturers or are they separate agreements?

Secretary CONNOR. The so-called agreement undertaken is by each individual company with the Canadian Government.

Mr. WATTS. Are they similar in terms?

Secretary CONNOR. As I understand it, they are similar but not identical.

Mr. WATTS. Do you have copies of those agreements?

Secretary CONNOR. I do not have here at the moment but they were made available yesterday.

Mr. WATTS. Will they be made available to this committee?

Secretary CONNOR. Yes, sir. The automobile manufacturers, as I understand it, are planning to put them in evidence; discuss them.

Mr. WATTS. The agreement itself in the record?

Secretary CONNOR. It will be put in the evidence here and discussed by the representatives of that particular firm; yes.

Mr. WATTS. And they will be explained in differentiation of the agreement.

Secretary CONNOR. I think so; yes.

Mr. WATTS. I think since they are an integral part of the trade that it is very essential that the committee have a chance to look at the agreements themselves.

Secretary CONNOR. I fully agree with you, sir.

Mr. WATTS. Was there any other industry that entered into any agreements that brought this about at all?

Secretary CONNOR. No, sir; just the Canadian motor vehicle manufacturers.

Mr. WATTS. Were there any agreements made by any parts manufacturers?

Secretary CONNOR. Mr. McNeill followed this whole situation; I think he can give you the particulars.

Mr. MCNEILL. The answer is "No" to your question, Mr. Congressman. The Canadian Government received assurances from not only the big three but also from American Motors and from other manufacturers of vehicles in Canada. I think in total in Canada there are 16 or 17 manufacturers of vehicles.

Other than the big three, or the big four, they tend in Canada to be producers of specialty equipment of off-highway trucks and other specialty trucks.

Mr. WATTS. But generally, parts were not a part of that?

Mr. MCNEILL. There were no independent manufacturers of parts who were involved in any discussions with the Canadian Government or who gave to the Canadian Government any letters as to their intentions for production in Canada. These letters were strictly limited to the manufacturers of vehicles.

Mr. WATTS. I guess that is all I have, Mr. Chairman.

Mr. KEOGH (presiding). Mr. Curtis.

Mr. CURTIS. I would like to ask Secretary Mann. When this was first presented to me, I thought possibly this might be in line with developing a free trade area between Canada and the United States—the more I hear of it I do not believe it is of a selective kind. I wonder if you would comment on that. It looks like this is more to avoid what might become a trade war between the United States and Canada.

Mr. MANN. Well, I think this is highly beneficial without predicting in any sense a free trade area between Canada and the United States. This agreement covers only one industry and as we discussed earlier, it is not free trade in one sense of the word but it did remove a number of restrictions that did exist, and we hope that the ones that are in there now are transitional and will be eliminated in the future.

So in that sense it is a step in the right direction.

Mr. CURTIS. It does not really operate between the producer and the consumer, the customer. It is more integration of the automobile industry itself.

Mr. MANN. I think that is right, Mr. Curtis.

Mr. CURTIS. I apologize for not being here sooner. I wonder if I might supply some questions in writing to the Secretary.

Mr. MANN. I should be happy to answer them.

(The following material was received by the committee:)

QUESTIONS ABOUT THE CANADA-UNITED STATES AUTOMOTIVE PRODUCTS AGREEMENT

(Prepared by Department of State)

Question 1. If the ultimate purpose of the present agreement is to create a true North American free market in automotive products, should the United States negotiate with Canada an agreement that, by the review date in 1968, the Canadian Government should fix a schedule for the removal both of the 60-percent Canadian content requirement, and the requirements stipulated in the auto companies' letters of undertaking to the Canadian Government?

Answer. In negotiating the automotive agreement it was necessary to recognize that Canada's automotive industry is less than one twenty-fifth the size of the U.S. industry. Moreover, the Canadian industry has tended to be relatively less efficient and higher cost than its American counterpart. In the circumstances, the Canadians were concerned that in moving to an integrated and truly free North American automotive industry, the Canadian industry not be swamped and disappear. The Canadians, therefore, insisted that certain transitional measures and production "floors" be built into the agreement. These measures consist of (1) a provision that manufacturers maintain in subsequent years the "Canadian value-added" that they achieved in the past year 1964, and (2) provision that manufacturers maintain the ratio of production of vehicles to sales of vehicles that they achieved in the base year 1964.

The 60-percent Canadian content requirement is no longer applicable to vehicle manufacturers who qualify under the agreement. The letters of undertaking from the auto companies to the Canadian Government represent indications of "Canadian value-added" or Canadian production which the companies will achieve by 1968. They are unilateral expressions of intent by each of the companies individually and do not in any sense represent a restriction on the duty-free treatment provided for in the agreement between the two countries.

The transitional measures provided in the agreement are clearly intended to be of a temporary nature. This intent is supported by the provisions for a comprehensive review, to take place before January 1, 1968, which is provided for in article 4 of the agreement. It is our hope, and we believe this is shared by the Canadian Government, that at this first comprehensive review we can begin a progressive removal of the transitional measures. We do not, however, believe that it would be feasible at this time to fix a definite schedule for their removal.

Question 2. What are your plans for entry into an agreement with Canada creating duty-free treatment of replacement parts? My concern is that you schedule concisely your plans for achieving true free trade in all automotive products, and thus reaching the announced goal of a true North American free market in autos and automotive products.

Answer. The Canadian Government refused to agree to include replacement parts in the duty-free agreement—at least at this time. They argued that a continuation of this protective tariff is essential because production of such parts in Canada is by small, generally inefficient firms which often operate the only manufacturing plant in a town or village. Removal of tariffs at this time would have been too great an economic shock.

We intend to renew our efforts to include replacement parts when the agreement is reviewed, no later than January 1, 1968. Meanwhile, the President asks authority in the proposed legislation to remove U.S. duties on replacement parts—so he will be in a position to do so when the agreement is worked out.

The Government will consult with all interested parties before the review.

Question 3a. How do you specifically propose to refute GATT-member arguments that the present agreement is in conflict with GATT article I? What opposition do you expect to find within GATT and from which GATT members? When do you expect to receive a GATT waiver?

Answer. We have consulted with our GATT partners, most recently in March 1965, on the consistency of the automotive agreement with the GATT. We stated that we recognized that if the agreement were implemented without extending duty-free treatment to all countries on a most-favored-nation basis our action would be inconsistent with article I of the GATT. We pointed out, however, that the inconsistency would be more with the letter than with the spirit of the provision since we were convinced that the interests of third countries would not be harmed thereby. We noted that the North American automobile was a distinctive vehicle. European-type autos filled a special place in the U.S. market and really did not compete directly with American cars. Moreover, our existing duty of 6½ percent was already very low and may go even lower in the Kennedy round. Finally, we explained the special factors which supported the objective of the agreement to create a single integrated North American automotive industry. While we did not think that this arrangement qualified under article XXIV as a "free trade area," we did think that it met the requirements of article XXV which permits waivers on the basis of "exceptional circumstances."

We did not (in March) apply for a waiver, since the implementing legislation had not yet been submitted to the Congress. We did indicate, however, that we intended to make a decision about a waiver request in the course of the legislative

proceedings. It is our present intention to apply for a waiver at an appropriate time and we expect a satisfactory resolution.

We also noted that the President intended to request the Congress to enact a provision that the agreement be open to other countries who would mutually eliminate their duties and provide mutual trade benefit.

Question 3b. Why will not the present agreement prejudice the U.S. position vis-a-vis UNCTAD and the U.N. Trade and Development Board that special, effectively exclusive bilateral trade arrangements are undesirable?

Answer. The United States has long recognized that intraregional trade preferences may serve a constructive purpose in certain special circumstances. We thus consented to trade preferences in the coal and steel sector of the European Coal and Steel Community. We consented to trade preferences among the countries of the European Free Trade Association. We accepted trade preferences among the countries of the European Economic Community.

The United States actually proposed last year that less developed countries be given the right to enter into regional arrangements among themselves involving particular industries which required economies of scale and larger markets in order to be efficient.

We have not changed our position against generalized preferences, since indiscriminate preferential trading arrangements will not accomplish a constructive economic purpose and could lead to undesirable economic and political consequences between preference givers and receivers. Most preferential arrangements harm third parties; the United States-Canadian arrangement will not damage third country suppliers of automobiles and automotive equipment.

Mr. BURKE. Secretary Wirtz, on the adjustment allowance for unemployed workers where all these cases have been denied in the 1962 act, do you see any difficulties that the unemployed worker would have to get entitled to these payments?

Secretary WIRTZ. No, sir; I do not, Mr. Burke. I, to the contrary, find in section 302—I think it will be—a very effective provision for providing allowances under this act to any workers who are affected by it.

I distinguish a little from the unemployment compensation but that is only a matter of words. My answer to your question would be that I find here a very effective and a very broad coverage of those situations which may arise.

Mr. BURKE. You do not believe that this should be liberalized more than the 1962 act in order to give these unemployed workers a little better chance to receive these payments?

Secretary WIRTZ. I think it will operate more broadly than the 1962 act.

Mr. BURKE. I notice here in addition to that 13 weeks for workers over 60 years of age. In your experience as Secretary of Labor, don't you find that it is rather difficult for persons over 45 to get employment?

Do you think that we should give the people 45 or over additional benefits?

Secretary WIRTZ. Without speaking to the specific detail, I agree the most overlooked problem is the older worker. I do not mean those over 65, I refer to those to whom you refer. The over-45 unemployment rate is lower than that for those below 45, but where there is unemployment among the older worker group the impact is very severe, and the difficulties of getting employment are very great. I think we have paid all too little attention to the problem to which you refer. We can concur completely in the suggestion you make.

Mr. BURKE. You do not think that limitation is merely a firm one. Do you think we could amend that, say, to 50?

Secretary WIRTZ. With respect to this particular legislation, I should question the advisability of that departure and would feel that the benefit matter is preferably kept at the levels in the Trade Expansion Act. I do feel that, more broadly, with respect to the development of our public and private employment policies there should be more attention given to the group below 60.

Mr. BURKE. That is all, Mr. Chairman.

The CHAIRMAN. Mr. Betts.

Mr. BETTS. Secretary Mann, on page 2 this second authority there which authorizes the implementation of other international agreements, is that ratifying in advance anything the executive department cares to do?

Mr. MANN. I believe the answer to that, Mr. Congressman, is we would come back to the Congress for specific authority on any agreement reached.

Mr. BETTS. You have specific authority here, do you not? If this law is passed you are giving the Executive the explicit authority to enter into any agreements without ratification.

Mr. MANN. This is a legal question. I wonder if I might insert the answer to this in the record.

Mr. BETTS. I think it is very important. Has there ever been anything like this in any other legislation that has been passed?

Mr. MANN. Well, I think this agreement itself is unique.

Mr. BETTS. Well, has there ever been any legislation passed which authorizes or ratifies Secretary Mann—

Mr. McNEILL. I am not a lawyer and I do not have the specific legal answer, but I believe that since 1934 when the first Trade Agreements Act was passed by Congress, it has been the congressional intent to give to the Executive the authority to negotiate trade agreements, which by definition means to negotiate reductions in duty. I think the only difference from the normal pattern here is that rather than asking for authority to reduce by 50 percent or by some other percent, the current levels of U.S. duties, this would give the President authority to eliminate certain duties.

However, the current U.S. duties on automobiles are 6½ percent, and these duties could be reduced by 50 percent in the Kennedy round to 3¼ percent so that the authority requested in the section you refer to, gives the President the additional authority to eliminate a 3¼-percent duty in the post-Kennedy period.

Mr. BETTS. In other words, this is sort of blazing a trail and giving the Executive authority to enter into any agreement he cares to, is that correct?

Mr. McNEILL. No, sir. I believe that this would carefully circumscribe the authority of the President in respect of only one sector to negotiate elimination of the U.S. duty in return for what the President might deem to be of mutual benefit. This could only be judged and evaluated in the context of an actual negotiation and just in the automobile sector.

I think that rather than being a pioneering step it is in accord with the historic policy since 1934 of the Congress granting the President the authority to negotiate trade agreements.

Mr. BETTS. Mr. Chairman. I think Mr. Mann wanted to submit the answer.

The CHAIRMAN. Yes.

Mr. MANN. I am told by my staff that the answer that was just given is absolutely correct. Section 202(a) would give the President authority to proclaim modifications of the tariff schedule to carry out agreements with other countries to remove duties on automobile products where such agreements can be made for mutual benefit.

I might add that this is limited to the automotive industry and this is the one industry in which we are probably as competitive as we are in any industry in the world.

I suspect the problem is not whether we will be given authority to compete on a zero duty basis with other automobile manufacturers but whether, as one of the Congressmen stated earlier, we will have that opportunity.

I don't see any problem as a practical matter here in this particular industry.

Mr. BETTS. To make sure I understand what you are answering, what your answer is this is not carte blanche authority for the Executive to enter into any agreement he sees fit, is that correct?

Mr. MANN. That is correct.

Mr. BETTS. But it ratifies in advance any later agreement, is that correct?

Mr. MANN. Well, it gives the President the same authority in regard to this that he already has under existing legislation, Mr. Congressman, for example to go to zero duty under section 202 of the Trade Expansion Act. In regard to the automotive products field, an industry where we are highly competitive, the President could, if he deemed that we got sufficient mutual concessions and that it was to our advantage, enter into an agreement going down to zero duty.

Mr. McNEILL. Just as a matter of information, our duty is perhaps as low as that of any industrial country in the world in the automobile sector. Our duties are eight and a half percent on parts and six and a half percent on automobiles. The duties of the European Economic Community and other industrial countries are considerably higher than those of the United States, which raises the question as to whether some of these countries would be willing to enter an agreement whereby they would negotiate their much higher duties to zero in return for the United States negotiating a three and a quarter percent post-Kennedy round duty to zero.

My purpose in giving you this information is that the prospects are somewhat dubious, at least in our mind, as to the possible use of this authority. A reason that we are desirous of having this authority is the question already touched on in respect to the GATT MFN requirement.

Mr. BETTS. This bill would apply to that extent.

Mr. McNEILL. It would simply in the one area of autos give the President the authority to go beyond the general authority he now has to reduce by 50 percent the current levels of American duties.

Mr. BETTS. One other matter. You say that the adjustment assistance provision is in here because you anticipate someone is going to be hurt. I receive a lot of correspondence from small businessmen in our district.

Now obviously it is not going to hurt any big industry. What assurance can I give these small businessmen who write about relief

under the adjustment assistance provisions which apparently has been pretty bleak as far as relief that has been granted under the Trade Expansion Act?

It is awfully easy for a big company to fight through all the various stages. A small business has to spend money fighting before the Tariff Commission. It is sort of a disheartening thing.

I would like to know what I can tell them. Will they have some better consideration than they had in the present trade expansion agreement?

Secretary WIRTZ. My particular concern is in connection with the standards in this bill. I can say to you with complete candor that I am satisfied that the provisions of section 302 will in practical effect accord relief in any situation where there is any appreciable dislocation. My answer is intended to contrast the results in these cases from the results in the Trade Expansion Act. I would answer very squarely that there is, in my judgment, complete protection here in any situation of appreciable dislocation.

Mr. BETTS. For the record would you review that briefly?

Secretary WIRTZ. Yes. The provisions are briefly these: that there must first be an indication of what the bill calls dislocation which would mean a reduction——

Mr. BETTS. No.

Secretary WIRTZ. There would first be the indication of the fact of reduction in employment or business, depending on whether we are talking about an application from employees or from the firms.

Second. There would be a consideration of whether the change in production and in the import and export situation between the two countries did or did not explain or cause this dislocation.

If it is determined on the basis of the general provisions in section 302(b) that it did, then the answer is that there will be the action or the adjustment assistance accorded. If the specific standards that are set out there do not show that it did, there is still a provision that the President shall make an investigation to find out whether the primary factor in causing or threatening to cause dislocation of the firm or group of workers was the operation of this agreement.

There is first the test of whether there has been a dislocation and second the application of general standards with respect to the change of production and the import-export situation, and third a provision that even though it is not shown by the second that there was this relationship, there shall be a special determination of whether it was a primary cause in this case.

Mr. BETTS. Who makes the determination?

Secretary WIRTZ. The bill provides that the determination is made by the President. The President may exercise his function through such agencies as he may designate.

Mr. BETTS. In other words, he has discretion to determine what is right or wrong?

Secretary WIRTZ. No, I did not put it that way. It is anticipated that there would be a delegation of this authority.

Mr. BETTS. The agency?

Secretary WIRTZ. It is not yet determined.

Mr. BETTS. Should we not know? Should not a person know who he is going to appeal to?

Secretary WIRTZ. There has been extensive consideration of that problem. It would be premature and presumptuous of me to try to give

a specific answer. We don't know yet what the final form of the bill would be.

Mr. BETTS. This agency has not been determined; you mean that H.R. 6960 is not in final form?

Secretary WIRTZ. It is in its final form and does provide in 302(1) for the delegation of this authority by the President to some other agency.

Mr. BETTS. I was wondering about the point where whether or not it should not be delegated in the bill. Employers and labor unions would know then.

Secretary WIRTZ. I think the consideration so far made quite clear the key factors in this function will be the Department of Commerce and the Department of Labor. There has been consideration of the possibility of an interagency board of one kind or another which might include those two, might include some others in addition or might be of some other composition.

I mean to leave no question about the expectation that there will be the identification of responsibility in those two Departments at least. With respect to the question whether that identification should be in the statute itself, we face another very real problem, which is that we are proceeding here on what is still virtually unmarked territory as far as its administrative detail is concerned.

There has been a conscious deliberate conclusion that it would be advisable to maintain the flexibility which would come from the President's having authority to make the designation and to make changes in it if necessary.

Mr. BETTS. On the Trade Expansion Act as I recall it, the Tariff Commission, would you have any objection?

Secretary WIRTZ. I would feel that H.R. 6960 as it stands would be preferable because it would leave the discretion to the President to make appropriate arrangements.

Mr. BETTS. So just to sort of button up what you are saying here, it is entirely within the discretion of the President as to whether or not anybody has been hurt, is that correct?

Secretary WIRTZ. I beg your pardon?

Mr. BETTS. You said it is entirely within the discretion of the President as to whether or not anyone has been hurt there, is that correct?

Secretary WIRTZ. I would not say discretion, Mr. Betts. There is a fairly specific identification. It is within his authority, if that is what you meant, but I don't think it is discretionary authority.

He is guided very well by legislative standards.

Mr. BETTS. Let me put it this way. It is within his judgment, is that correct to say?

Secretary WIRTZ. I would have the same difficulties with the answer. If the question applies to discretionary judgment, I would feel there is firm statutory guidance here, quite specific, and especially with the accompaniment of the explanatory statement which has been included as part of the legislative history.

There is the identification of what is intended to be meant by "appreciable" in terms of a 5-percent loss, the number of workers, that kind of thing.

I would answer your question if it is within his authority, that it is within his judgment in a sense, but that that judgment would have to be guided by the legislative direction, not beyond that.

Mr. BETTS. That is to say that he has sole and final authority, is that correct?

Secretary WIRTZ. That is correct, yes.

Mr. BETTS. Without any review by anybody?

Secretary WIRTZ. I would want to check my answer. My answer would be subject to check. It would be final in this case, not subject to any other review. If there is a different answer I will supplement the record.

(The following material was received by the committee:)

Question 4(a). On page 7 of a document titled "Comments on Statements Concerning the United States-Canada Automotive Products Agreement" the Commerce Department wrote "There is no reason to expect any serious or widespread dislocation from the agreement. Nevertheless in a period in which the industry is adjusting to opportunities for greater efficiency and growth, there obviously could be some dislocation for an occasional firm or plant or its workers." If the industry is to prosper, if there is expected to be no serious dislocation, are the special H.R. 6960 adjustment assistance provisions needed?

Answer. It may be useful to view the problem posed by this question in perspective. The expansion in the consumption and production of automotive equipment in the unified North American market should, over a period of time, provide a net increase in jobs in the United States. However, it is reasonable to expect that the changes in production patterns made practicable by the operations of the agreement could cause temporary dislocation in the case of particular firms and workers. These dislocations may arise as shifts are made to take advantage of the opportunities for efficient operations in the industry offered by the agreement.

Since the removal of the barriers to a more unified North American automotive products industry is in the interest of the Nation as a whole, we have a clear obligation to provide assistance for any firms or workers adversely affected. It is against the background of the unique circumstances of the action taken to advance the integration of this industry—over a million workers and 10,000 plants—and the need to consider the effects of factors other than increased imports, that the particular adjustment assistance provisions of H.R. 6960 were drafted. They should help in the adjustments which, it is anticipated, will be completed in a relatively short span of years.

Question 4(b). What consideration, apart from the fact that no adjustment assistance claims have qualified under the provisions of the Trade Expansion Act, have led to believe that the Trade Expansion Act adjustment assistance provision is inequitable or inadequate?

Answer. The types and amounts of adjustment assistance provided by H.R. 6960 for firms and workers are the same as those provided in the Trade Expansion Act.

With respect to the eligibility to apply for this adjustment assistance, the unique circumstances of the agreement and the particular characteristics of the automotive industrial complex in North America require different provisions than those in the Trade Expansion Act.

1. The Trade Expansion Act adjustment assistance provisions deal only with serious injury arising from increased imports. This agreement involves integration of the North American automotive industry and dislocation may occur not only because of increased imports, but also because of a decrease in exports or from internal shifts within the industry in production and marketing patterns.

2. H.R. 6960 provides for an immediate reduction to zero of the duty on a selected class of products. This contrasts with the general Trade Expansion Act provision for the staging of duty reductions over a period of years—in itself a type of adjustment mechanism.

3. The process of adjustment to this action will, in all likelihood, be completed in a relatively short span of years and therefore the special provisions for eligibility to apply for assistance are requested for only 3 years.

Question 4(c). Why is it necessary to remove determination of injury, or dislocation, from the independent Tariff Commission?

Answer. H.R. 6960 deals with a unique situation—a single industry manufacturing and selling the same product on both sides of the border. It is aimed at eliminating barriers to the more efficient operation of an industry which is

continental by its nature and scope. The proposed legislation provides for the complete and immediate elimination of duties on certain automotive products. It recognizes that in this case dislocation can be caused by a loss of exports and by shifts in product mix as well as by increased imports. Thus we are dealing with a problem which goes well beyond the possible adverse impact of increased imports. It is against this background that it was considered appropriate to develop specific criteria and standards for adjustment assistance patterned to this particular situation.

In this legislation we are dealing with possible dislocation which could arise from increased imports, decreased exports, or other shifts in product mix across the United States-Canadian border. Therefore, the scope of consideration extends beyond the modifications of import restrictions traditionally assigned to the Tariff Commission. In dealing, for example, with such a special issue as the effect of imports upon national security, the Congress, in the Trade Expansion Act, placed the responsibility for the investigation and advice to the President with an arm of the President's Office (the Office of Emergency Planning).

Since the agreement is a unique venture in the trade field, the change in tariff treatment unprecedented, and factors other than increased imports must be considered, it was our judgment that the interests of the Government would be best served by vesting in the President the authority to make findings with respect to eligibility for assistance.

Mr. BETTS. Does this bill apply to the tire and rubber industry?

Secretary WIRTZ. It does not.

Mr. BETTS. Tires are not in this bill?

Mr. McNEILL. No.

Mr. BETTS. Any rubber products?

Mr. McNEILL. I could only say that tires are not in the agreement. There may be certain rubber products within the coverage of the bill, such as washers that are used in shock absorbers.

Mr. KEOGH (presiding). Mr. Rhodes from Pennsylvania.

Mr. RHODES. It has been said that a product will be considered like or directly competitive with another if it performs the same function as the other. This raises the question of how you would apply the criteria in the bill to passenger cars. Suppose, for example, that some automobile corporation was to transport a proportion of the production of their larger cars—Chevrolets and Ford Galaxies and on up in size, for example—from Canadian to United States plants while other firms shifted an approximately equal volume of production of smaller cars—for example, Valiants and Rambler Americans—to Canadian plants.

In that case there would be no appreciable change in U.S. production nor in imports or exports of cars as such. Yet, workers in the plants that were making the smaller cars would be laid off as a result of the agreement with Canada. Because of this possibility, will it not be necessary, in administering this legislation, to distinguish among automobiles by class or type—to hold, for example, that smaller cars perform different functions from larger cars?

Secretary WIRTZ. I think, Mr. Rhodes, that the situation as I followed it will fall specifically under section 302 as it stands and could result in the granting of adjustment assistance in that case, using your question just as an illustration of the application of section 302.

What you would have there would be a dislocation under 302(b) (1) because of your stated fact there is a reduction in employment.

As you move down then to section 302(b) (3), this is the nub of the question you are asking me—there has not been a change in the export-import situation as a whole. Therefore, you would proceed in that case to a consideration of a set of facts under section 302(d) which is

specifically designed to meet the situation you describe. This provides that where you do not satisfy the standards of 302(b)—

The President shall continue his investigation to determine whether the operation of the agreement has nevertheless been the primary factor in causing or threatening to cause dislocation of the firm or group of workers.

This would resolve your question squarely on the basis of a finding for adjustment assistance in that situation under section 302(d).

Mr. RHODES. Would it not be necessary also to distinguish, at least, in some cases by make and model? For example, suppose there were offsetting transfers of Corvair production to Canada and Falcon production from Canada to the United States. Would the workers in America be entitled to adjustment assistance?

Secretary WIRTZ. Same answer. That case would be proper to the sections I referred and would in my judgment—recognizing there is an administrative judgment to be made, and a matter of developing this provision—would mean the granting of assistance under section 302(d).

Mr. RHODES. Thank you.

Mr. KING (presiding). The Chair recognizes Mr. Schneebeli from Pennsylvania.

Mr. SCHNEEBELI. Secretary Mann, isn't the timing of this agreement rather unfortunate since it takes away our position of bargaining power at GATT at the beginning of the Kennedy rounds? Doesn't that prejudice their position?

Mr. MANN. No, sir; I do not think so. I do not think that any of the members of the GATT will feel that way. We have been in discussion with several of them and none of them produce American-type automobiles.

Our judgment is that they won't be damaged by this and therefore it will not prejudice our position in the negotiation.

Mr. SCHNEEBELI. Does that not take out of our hands the bargaining power we need over there?

Mr. MANN. No, sir.

Mr. SCHNEEBELI. Secretary Connor, on page 2 you discuss the relative exports of the automotive cars in Canada and the United States. What is our overall position on all exports and imports with reference to Canada?

Secretary CONNOR. We have a rather favorable balance between us.

Mr. SCHNEEBELI. What is it?

Secretary CONNOR. As I recall, the net figure is about \$700 million in our favor but I would be glad to get the exact figure.

Mr. SCHNEEBELI. No, no; our overall trade with Canada.

Secretary CONNOR. I am talking about the overall net trade advantage.

The overall trade, I would have to supply that, I do not know.

Mr. SCHNEEBELI. What is our main import from Canada?

Secretary CONNOR. I am informed that the overall trade with Canada amounted to about \$9 billion in 1964.

Mr. SCHNEEBELI. \$9 billion.

Secretary CONNOR. Yes, sir.

Mr. SCHNEEBELI. Out of our total of \$25 billion in exports?

Secretary CONNOR. Well, total U.S. exports last year were about \$26 billion and total U.S. imports about \$18 billion.

Mr. SCHNEEBELI. Then Canada represents the largest area of our exports.

Secretary CONNOR. Yes, sir; this is the most important volume of trade that we have with any nation.

Mr. SCHNEEBELI. All right. With this new agreement, in 2 years how do you visualize that this difference of \$600 million in automobile trade or whatever it amounts to will be changed by this agreement? What is going to be the dollar flow the other way?

Secretary CONNOR. Our opinion is that we will continue to have roughly the same favorable balance of trade with Canada.

Mr. SCHNEEBELI. You mean we are not going to have any less exports or any more imports?

Secretary CONNOR. I was talking again about the surplus in our trade, the net surplus. I think that our trade with Canada both on the export side and the import side will continue to increase so that the total trade with Canada will increase.

Mr. SCHNEEBELI. I am talking about the automotive area now. Your stated automotive differential of \$542 million; how will that be affected?

Secretary CONNOR. We think that as a result of this agreement working out over a period of time and with the anticipated growth of the Canadian automobile industry and the U.S. automobile industry that the same dollar surplus will persist in our favor.

Mr. SCHNEEBELI. I notice in the Wall Street Journal April 6, that there is a current shipment of 400 cars a month from Canada to New York State which is a new type of trade. It would appear that this change of importing the finished commodity to the United States has not transpired up to this point and would affect the differential in our exports and imports, would it not?

Secretary CONNOR. Sir, you cannot look at just one transaction. Our anticipation is that there will be automobiles made in the United States that will be exported to Canada as a result of this agreement that heretofore has not taken place. There will be changes in the type of production in Canada and the United States as a result of this integration possibility.

Mr. SCHNEEBELI. I see the Tariff Commission published a report and said, "An increase in the Canadian automotive production of the magnitude set forth above would result in Canada having an increased share and the United States a decreased share in North American automotive production."

Isn't this contrary to what you have just said?

Secretary CONNOR. Mr. McNeill has studied this.

Mr. MCNEILL. Congressman, the Canadians now produce about 4 percent of the total North American automotive production, that is taking the dollar value of automobile production in both countries. The Canadian portion now is about 4 percent. At the end of the transition period of this agreement we anticipate that the Canadian share of the North American automotive production will rise perhaps to as much as 5.1 percent.

We also anticipate that the growth in the Canadian market will accommodate the additional production in Canada and that the growth of the Canadian market will also preserve the share that we have had in Canadian consumption of automotive products.

We have worked our analyses out in very great detail using differing growth assumptions.

When you take the arithmetic into account, even though you will have an improvement in production in Canada as a proportion of North American production, our export market and our net advantage in trade with Canada on automotive products will be preserved at about the current level of \$500 million.

Mr. SCHNEEBELI. I see the Tariff Commission figures their share of the automotive market increase from 4 to 6 percent. That is a 50 percent increase.

Mr. McNEILL. Yes. You are talking about a percentage increase of Canadian production. The figures I was using, sir, were the proportion of total production in North America. The U.S. market will increase by over \$3 billion during this transition period of 3 years as compared to the Canadian increase in production of about \$500 million. In other words, the growth in the United States will be vastly greater in absolute dollar volume than it will be in Canada even assuming a 4-plus-percentage growth in domestic auto consumption as compared to Canada.

Mr. KING. Mr. Rostenkowski.

Mr. ROSTENKOWSKI. On the issue of appreciable dislocation let's consider the plight of the firm which produced considerably less than 5 percent of the total U.S. output of a specialty part but all or nearly all of the production of that part is for the Canadian market. Now if that market is lost as a result of this agreement, would you consider that the firm and its workers would be eligible for the adjustment benefits under the terms of this bill?

Secretary WIRTZ. Yes; I would. The 5 percent has been suggested as a general test for an appreciable change. It is specifically recognized in the section-by-section analysis of the bill that there would be many cases in which that might not be an adequate measure.

There is specific reference to smaller firms which the general test might be inadequate. So on the basis, of the facts you have suggested, it would be my understanding of the intention of the legislation that in that situation there would be a case for adjustment assistance.

Mr. ROSTENKOWSKI. There would be two of them?

Secretary WIRTZ. That is right.

Mr. ROSTENKOWSKI. Thank you.

Mr. KING. Mr. Collier of Illinois.

Mr. COLLIER. Pursuing the inquiry of Mr. Schneebeli, regarding the effect of this agreement in the undermining of the negotiations of the GATT agreements, you stated that you had checked with our delegates and found that this agreement would in no way affect their negotiations?

Mr. MANN. What I said Mr. Congressman, was that we discussed this with the governments of other producers of automobiles and we have not found any great problem.

We have, however, also discussed this with our people who are negotiating in the Kennedy round. They are fully familiar, of course, with this Canadian automobile negotiation and have not expressed any concern.

Mr. COLLIER. Have they not expressed any concern? We had a beef import bill before us last year which was relatively innocuous as far

as the overall trade picture was concerned and we were told that its enactment would in fact jeopardize our negotiations and the atmosphere in which we were trying to negotiate. I find some of the inconsistencies here, particularly since it has been reported that there is concern on the part of those negotiating.

Mr. MANN. Well, I think the difference in what we propose to do now with Canada and what was done in connection with meat is quite obvious. Here we are moving in the direction of liberal trade and integration of the great automotive industry in this hemisphere in one case and in the other case we were imposing restrictions on the importation of other people's beef.

So the reaction, of course, would be different.

Mr. COLLIER. I don't want to oversimplify the issue before us but why would Canada wish to enter into this agreement if, as has been stated here, the favorable balance which we enjoy will continue but they will not improve their comparative situations?

Secretary CONNOR. The Canadian industry, sir, will certainly improve its situation by getting more production activities that will enable them to get a larger share of the consumption in Canada. What we were talking about with respect to the favorable balance of trade has to do with the dollar surplus that we now enjoy which we do not think will be affected adversely.

The Canadian automobile industry can improve its relative position in Canada as a result of this, and of course that is one of their objectives. We think that this agreement has advantages for the United States and Canada. If it were completely one sided, of course it would be of no interest to the Canadian Government.

Mr. COLLIER. Why do they need this agreement to improve their position in their own country?

Secretary CONNOR. We attempted to explain the economics of the automobile situation in North America and pointed out the great advantages that large-scale production activities in the United States give the American manufacturers.

Mr. COLLIER. They would have had to improve their situation would they not, with regard to the export of automotive components into this country?

Secretary CONNOR. Not necessarily the exports, sir. If they get a larger share of the consumption of automobiles in Canada, they can improve their situation. There are many ways in which they can do this, and the exact way in which this happens is somewhat flexible because under the total situation each manufacturer has considerable flexibility in what he can do. This I think may be the subject of some discussion when the manufacturers are here before you.

Mr. COLLIER. Is this going to rectify in any manner what I feel is a sort of paradox in respect to the Treasury Department rulings on the import of farm equipment components? The ruling has been that where a part is manufactured for use in farm equipment and is interchangeable in a manner that it may be used primarily in automobiles and trucks and so on, it does not necessarily qualify under the 1934 act.

There has been no remedy for those so-called farm equipment components which are interchangeable and which today the Treasury has ruled are subject to the duty. How will these agreements affect this problem?

Mr. McNEILL. Congressman, this bill before us pertains only to the automotive products industry. It provides that parts to be incorporated in new vehicles may enter the United States duty free. To avoid the possibility that parts destined for use in other than new automobiles might come in, the bill provides certain safeguards. The importer will have to demonstrate to the customs official by showing him an order he has from one of his customers or a letter of intent, that the part he is importing is for use as original equipment in a motor vehicle.

So it is a different question than farm implements.

Mr. COLLIER. I understand that. I am merely saying that in light of the fact that components, notwithstanding the 1934 act, manufactured for farm equipment which are interchangeable may be used in automobiles and trucks and so on are ruled not to be duty free with specific proof of final usage.

It would seem to me that if this agreement is ratified that any part, regardless of whether it was manufactured for farm equipment that is brought in here, it would therefore qualify under this act.

Mr. McNEILL. Our intention, Congressman, is to prohibit that possibility through some of the mechanisms I have just mentioned.

Mr. COLLIER. I have a couple questions I would like to ask Mr. Wirtz. May I proceed?

The CHAIRMAN. Yes.

Mr. COLLIER. How many employees are currently engaged in the production of automotive parts by the so-called independent manufacturers?

Secretary WIRTZ. My accompanying statement, which I filed with my general statement, gives us on page 2A a picture of the size of the establishment in terms of the number of workers involved in the production of bodies, parts, and equipment.

The answer to your question in general would be that about 40 percent of parts workers are in the plants of the so-called independent manufacturers.

Mr. COLLIER. In total figure I know it is approximately 10,000 in our State of Illinois. What is the number across the different States?

Secretary WIRTZ. I don't believe I have that for Illinois but I will be glad to supply it for the record.

(The following information was subsequently supplied:)

Employment in the automotive industry in Illinois in 1963 was about 20,000 workers; 2,000 were involved in final assembly operations, about 1,600 were producing bodies, and the remaining 16,000 manufactured parts and equipment.

Mr. COLLIER. Mr. Secretary, what is the comparative average hourly rate for the automotive worker in Canada, including fringe benefits?

Secretary WIRTZ. The inclusion of the fringe benefits makes it a hard question to answer, but in hourly terms the difference as of 2 years ago was between 20 and 25 percent with the Canadian level lower than the United States level. Now that difference is diminishing. The most recent specific comparison we could make was for the third quarter of 1964. If you take the figures for the assembly operations, they now show a difference, as far as average hourly earnings are concerned, of about 17 percent. The gap is narrowing very rapidly. Your question included fringe benefits and my answer does not because the comparison is not possible when you get to that point.

In short what you have is a difference as of 2 years ago of 20 to 25 percent narrowing rapidly and reflected in the most recent figures we have which shows a difference of about 17 percent.

Mr. COLLIER. The report of the U.S. Tariff Commission shows that in 1963 the average hourly industry earnings are \$3.10 per worker in the United States and about \$2.40 per worker in Canada.

Secretary WIRTZ. I would have to check some of those figures Mr. Collier. Our figures are set out on table 1, page 2, of my accompanying statement. That does not include the Canadian figure. Table 4 sets that out. Table 4 is on page 9. So if you compared table 1 and table 4 on pages 2 and 9 of my accompanying statement, you got our most complete information. Your reference Mr. Collier, was to which year?

Mr. COLLIER. 1963.

Secretary WIRTZ. 1963. For which part of the industry?

Mr. COLLIER. That was the average hourly rate.

Secretary WIRTZ. For production workers we show for motor vehicles and equipment a rate of \$3.10 in 1963 in the United States; for 1963, in Canada a rate in Canadian dollars of \$2.45, which would be approximately the figures you have there.

Mr. COLLIER. Would you at this time be willing or can you make any forecast as to what impact this would have upon the workers employed in the independent automotive manufacturing industry?

Secretary WIRTZ. Not in specific terms and therefore only of limited reliability. My net judgment would be that this accompanying legislation would not have any appreciable impact on the U.S. wage rates.

Mr. COLLIER. One other question. Is it true that presently the average number of work hours that go into the manufacture of an automobile is approximately 300?

Secretary WIRTZ. That sounds right to me in general. I think it is approximately correct.

Mr. COLLIER. Mr. Chairman, in light of the fact that the second bell has rung, those are all of the questions I have.

The CHAIRMAN. Mr. Battin?

Mr. BATTIN. I just have one question for Secretary Mann.

Don't we have a situation now where two governments entered into an agreement which, of course, is not unusual in itself but now we have the third element moving in, that is one of the countries to the agreement; namely, Canada, says they are not going to implement the agreement as far as their own country is concerned unless they get a separate agreement from a business enterprise which is completely unrelated to the governments entering into the agreement?

It seems to me that this is a far departure from what in the past has been considered the obligation and the responsibility of the governments themselves and not necessarily relying upon the interest or action of the third party in this case, the automotive industry?

Mr. MANN. Well, I think the problem here is that in Canada they have a relatively less efficient industry than we do. They have a higher cost product. They are not really competitive for various reasons, whereas we have a very highly efficient industry.

Now without some kind of temporary provisions during the transitional period, you might have very serious dislocations. To expose what one might call an infant industry to a highly developed industry such as our automotive industry might have undesirable effects on the survival of the Canadian industry.

So it was thought necessary by Canada for a transitional period of 3 years to ask these undertakings from the private companies.

As we have stated earlier we considered that these are transitional and that as their costs and prices come nearer to ours—which we believe they will do as a result of this agreement—that these kinds of arrangements will not be necessary in the future.

Secretary CONNOR. May I supplement that? Having come into the Government recently from private industry I know from my own experience that various countries throughout the world impose different conditions on doing business in their country.

Now in this very industry, for example, in Australia, one of the conditions of doing business there is that 95 percent of the product be made in Australia. In many other countries, particularly when the productions runs are small or there is an infant industry or there is a currency problem or any kind of innumerable complications, there are conditions of doing business that are quite different from the conditions of doing business in the United States.

Mr. BATTIN. Mr. Secretary, is it true then that Canada without this agreement could have imposed these restrictions upon American capital coming into Canada in order to sell their products?

Secretary CONNOR. Well, one thing Canada could have done, Congressman Battin, is to have said that in the automobile manufacturing industry in Canada there has to be 100 percent value added in Canada which would have made it impossible for any import into Canada of United States made automobiles or parts.

Mr. BATTIN. I would suggest that since both countries have entered into this agreement it leaves Canada in rather an enviable position saying, "Look our governments have agreed and now you had better give me the type of letter of understanding that we are interested in or we are not going to implement the agreement and we will continue our remission plan or whatever we think is best."

Secretary CONNOR. Mr. Battin, I think you will find when the automobile manufacturers are before you that they consider that the total arrangement here is in their interests, both from the point of view of producing in the United States and doing business in Canada rather than many other things that might have happened.

Mr. BATTIN. I don't doubt that at all. In just following up Mr. Collier's statement and I think if you have not seen it you should read the report to this committee by the Tariff Commission because it is somewhat at variance with the testimony that has been given. I can't see any reason why Canada, who has an unfavorable balance of trade with us at the present time, is going to enter into any agreement that is not going to give them some benefits that they don't now enjoy.

Secretary CONNOR. Mr. Battin, they can get benefits and we in the United States can also get benefits from an integration arrangement affecting the automobile industry on the North American continent. There is no reason why everyone has to lose in the situation.

We think that everyone is going to gain from this agreement. It is a sensible way of recognizing the inherent economic differences between the two countries, particularly in the automobile industry—

Mr. BATTIN. I hope you are right, but I suspect you are not? I hope I am wrong in the net result.

The CHAIRMAN. Mr. Curtis.

Mr. CURTIS. Under the Trade Expansion Act of 1962, the adjustment features, the last time I checked, Mr. Wirtz, there has never been any case of any implementation. Is that true?

Secretary WIRTZ. There has been no adjustment assistance.

Mr. CURTIS. On the other matters, I will direct the question to you in writing if I may. I do find a number of very important differences in the features of this that vary from the Trade Expansion Act.

Secretary WIRTZ. As far as the procedures, the adjustment allowances are precisely the same.

Mr. CURTIS. The allowances, but you have the subpoena power and you sort of have the Tariff Commission dismissed.

I will supply these questions. In case you want to make a preliminary comment, you may do so.

(The following material was received by the committee:)

Question 5. (a) Why has the administration deemed necessary the subpoena provisions of section 302 (j) of H.R. 6960?

(b) Do not similar subpoena and disclosure provisions exist in only three other statutes—the Export Control Act, the Defense Production Act, and the Federal Aviation Act—which have special national defense or public regulatory purposes? Under these circumstances, are the provisions of section 302 (j) and (k) not unprecedented in a situation of this kind?

Answer 5. (a) The administration believes that the subpoena provision, subsection 302 (j), is necessary to enable the President to carry out the investigations upon which his determinations of eligibility to apply for adjustment assistance would be based. As proposed, the legislation provides power to subpoena books, papers, and other documents, and to compel the furnishing in writing in such detail and in such form as he may prescribe of information relating to the investigation. These powers are necessary to meet the need for full and responsible investigation.

(b) Subpoena authority is common to legislation providing investigatory powers in a variety of fields affecting business and labor.

Subsection 302 (j) and (k) are designed to meet the particular needs of H.R. 6960. While a number of statutory subpoena power and confidentiality provisions were considered in preparing those sections, our primary concern was to account for the legitimate needs of interested parties and of the public as a whole in the unique circumstances covered by the proposed legislation.

Like the situations covered by the statutes referred to in the question, the determinations of eligibility to apply for adjustment assistance are of substantial importance and concern to the public. Also like those statutes, disclosure of any information which would adversely affect private interests is required to be based upon an overriding public interest. In this fundamental sense, subsection (k) has precedent.

It should also be noted that in the event the public interest requires disclosure of certain information, under the proposed legislation, other substantial safeguards are specifically set forth in section 302K(b).

Secretary WIRTZ. Mr. Chairman, I answered one of your colleague's questions in terms of cents and it should have been percent. It should be the difference in wages is 20 to 25 percent.

The CHAIRMAN. Yes. We thank you very much for coming to the committee and giving us the benefit of your judgment on the matter and responding to our questions as you have. Thank you very much.

Our next witness today is the Honorable Richard D. McCarthy, from the State of New York. It is very good of you to come to us today to give us the benefit of views on this matter.

**STATEMENT OF HON. RICHARD D. McCARTHY, A REPRESENTATIVE
IN CONGRESS FROM THE STATE OF NEW YORK**

Mr. McCARTHY. Mr. Chairman, I would like to add my name to the long list of distinguished persons testifying in favor of H.R. 6960. My district is on the boundary waters between Canada and the United States. Our relationship with our Canadian neighbors in both commerce and recreation has been cordial. The proposed Automotive Products Agreement between the United States and Canada is another step toward freer flow of goods and services. I look up this agreement as a positive step in reducing the barriers of tariffs which now impede more vigorous trade across the border. While this agreement is more limiting than I would like to see, I recognize these negotiations as the best possible attainable at the present time. We shall all look for the positive results of this agreement with great interest and hope that it will open doors for further reduction in tariff barriers.

I, for one, would like to see more of our independent manufacturers of automotive parts and accessories be given the same consideration. I would like to submit for the record a statement by the counsel for T. Whiting Manufacturing, Inc., and Whiting Roll-Up Door Sales Corp. of Akron, N.Y. Their problem is typical of many independent manufacturers who have built markets in Canada only to find that competitors have stepped in and undercut their efforts by underselling their products by just the amount of the tariff. I commend for attention Mr. Mattioli's statement which outlines this whole problem:

EDWARD A. MATTIOLI,
ATTORNEY AND COUNSELOR AT LAW,
Akron, N.Y., April 23, 1965.

Re bill H.R. 6960.

To the WAYS AND MEANS COMMITTEE,
House of Representatives, Washington, D.C.

(Attention of John M. Martin, Esq., Assistant Chief Counsel).

GENTLEMEN: This statement is in support of bill H.R. 6960, entitled "To implement the agreement on automotive products between the United States of America and Canada."

This statement is further submitted in behalf of T. Whiting Manufacturing, Inc., and Whiting Roll-Up Door Sales Corp., both of Akron, N.Y.

The commodity in question is a rollup door manufactured and sold by the two aforementioned companies. This door is primarily for trucks and tractor trailers, giving the storage capacity of such vehicles, easy, complete and unobstructed accessibility, coupled with security, unknown before the introduction of our door. The door may be placed and installed in almost any part of the box, adding very little weight to the truck, as opposed to the old type swing-out dual type door found on many trucks and trailers.

About 10 years ago, the company saw an opportunity for introducing their trailer roll-up door in Canada and commenced an intensive campaign through its salesmen and sample door installations throughout the major cities of Canada. This cost the company upward of \$300,000, and soon, because of the quality of its product, excellent service and a complete inventory of parts, readily accessible to all of its customers, the company began establishing a substantial market in Canada, and which reached a point of between 15 and 20 percent of its total annual sales.

About 3 years ago, all of this work, effort, monetary expenditure and creativity, suddenly stopped. This sudden stoppage was caused by an American firm, who having a factory in Canada manufacturing garage doors, suddenly began manufacturing a rollup type door for tractor trailers and trucks, and sold the same at a price of about 25 percent lower than our costs. This lower cost was due solely because of the tariff duties which we had to pay, as opposed to our new competi-

tor, and this, after we had created the market, expended our funds, ingenuity and manufacturing know-how.

This loss represents gross sales of from \$300,000 to \$500,000 per annum, to say nothing of the tremendous potential which exists in Canada for our product.

Because of the substantial lower cost of our Canadian competitor's product, we have been forced completely out of the Canadian market.

Our old-established customers have made numerous and constant inquiries concerning our product, knowing its qualities and performability, but because of the foregoing circumstances, we have reached an impasse in our ability to help them.

The present bill before your committee would give us the opportunity to recoup our losses, at least a portion thereof, by giving us the opportunity to be competitive, which is all we ask.

The opening up of the Canadian market will enable us to expand our present facilities, thus creating new job opportunities in America, where we want these opportunities to exist, and yet, we will bring into America, Canadian funds to help pay for these new job opportunities.

This bill and its passage is sorely needed, not only by companies such as ours, but by smaller concerns who can open up new avenues in production and manufacturing, by this new Canadian market.

We therefore overwhelmingly request that bill H.R. 6960 be enacted into law in order that the present agreement between the United States and Canada may be properly implemented.

(The following letter was filed with the committee:)

EDWARD A. MATTIOLI, ATTORNEY AND COUNSELOR AT LAW,
Akron, N.Y., April 23, 1965.

Re bill H.R. 6960, T. Whiting Manufacturing, Inc., Akron, N.Y.

HON. RICHARD D. MCCARTHY,
U.S. House of Representatives,
Cannon Building, Washington, D.C.
(Attention of Mr. David Nelson).

DEAR CONGRESSMAN: At the outset, let me thank you and your office for the tremendous effort and help in our problem over the above bill.

Your administrative assistant, Dave Nelson, has been most helpful.

I am enclosing the original letter which we would like presented at the hearings to be held on April 27 and 28.

As you know, we have the added problem now of being advised that roll-up doors, such as we manufacture, will not be excluded from the tariff, unless it is specifically included in the above bill. This is a matter of tremendous importance to the Whiting companies.

I shall be arriving in Washington, Tuesday morning, April 27, 1965, and I would like an opportunity to review this matter with you, if at all possible.

Again thank you for your efforts, and I shall be looking forward to seeing you on Tuesday.

Very truly yours,

EDWARD A. MATTIOLI.

The CHAIRMAN. Thank you, Mr. McCarthy. Are there any questions? If not, without objection, the committee will adjourn until 10 o'clock in the morning.

(Whereupon, at 12:35 p.m., the committee recessed, to reconvene at 10 a.m., Wednesday, April 28, 1965.)

UNITED STATES-CANADA AUTOMOTIVE PRODUCTS AGREEMENT

WEDNESDAY, APRIL 28, 1965

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
Washington, D.C.

The committee met at 10 a.m., pursuant to notice, in the committee room, Longworth House Office Building, Hon. Wilbur D. Mills (chairman of the committee) presiding.

The CHAIRMAN. The committee will please be in order.

Our first witness this morning is Mr. Roche, executive vice president of General Motors Corp.

Mr. Roche, we are pleased to have you with the committee this morning. You may identify yourself for the record by giving us your full name, your address, and the capacity in which you appear.

STATEMENT OF JAMES M. ROCHE, EXECUTIVE VICE PRESIDENT, GENERAL MOTORS CORP.

Mr. ROCHE. Thank you, Mr. Chairman.

My name is James M. Roche. I am an executive vice president of General Motors. My address is 425 Dunston Road, Bloomfield Hills, Mich.

The CHAIRMAN. You are recognized.

Mr. ROCHE. Thank you, sir.

I am an executive vice president of General Motors Corp., with jurisdiction over 15 manufacturing divisions, including our 4 Canadian operations—General Motors of Canada, Ltd.; McKinnon Industries, Ltd.; General Motors Diesel, Ltd.; and Frigidaire Products of Canada, Ltd.

GENERAL MOTORS BACKGROUND

1. Origin of GM of Canada: General Motors of Canada was formerly the McLaughlin Carriage Co., whose president, R. S. McLaughlin, signed an agreement with William C. Durant in 1907, the year before General Motors was organized, to obtain Buick engines for the McLaughlin car. Mr. McLaughlin became a director of General Motors in 1910 and president of GM of Canada in 1918 when that company was formed. He is now chairman of the board of GM of Canada and is still active as a director of General Motors Corp.

2. Products made by GM Canadian operations: General Motors of Canada builds Chevrolet, Corvair, Pontiac, Oldsmobile, and Buick passenger cars and Chevrolet and GMC trucks at its Oshawa plants not far from Toronto. It also manufactures certain components and subassemblies used in the final assembly of both cars and trucks.

McKinnon Industries, with plants in St. Catharines and Windsor, Ontario, manufactures a variety of parts and components for GM of Canada and also for other vehicle manufacturers. They range from engines and transmissions to spark plugs and ball bearings.

Automotive parts as well as Frigidaire products are produced at the Frigidaire plant in Scarborough, Ontario.

GM Diesel, Ltd., assembles buses and locomotives at its plant in London, Ontario.

3. Relationship between GM's Canadian and U.S. operations: Almost all of the products and parts produced by these Canadian subsidiaries are similar to items made in GM's U.S. plants. All of the Canadian subsidiaries import additional components and service parts from GM plants in the United States and from non-GM suppliers in this country as well. For the most part, these are items that cannot be produced economically in low volume, and in many cases their entry into Canada is permitted duty free.

In 1964 such imports into Canada from GM plants in the United States included items like metal stampings for bodies and floor panels, transmission assemblies, engines and components, body hardware, instrument clusters, electrical equipment, and carburetor and steering assemblies. The total value of such 1964 imports was \$173 million.

4. Imports into Canada from other U.S. suppliers: Imports into Canada from other suppliers in the United States amounted to almost \$46 million in 1964. Three-quarters of these imports came from 130 major suppliers and include such items as cold rolled sheet steel, frames, stampings, rubber parts, heavy-duty axles and transmissions, carburetors, castings and forgings, bumpers, mufflers, and brakes, and brake parts.

5. Purchases from Canadian suppliers: GM's Canadian subsidiaries also purchase a substantial volume of components and parts from independent Canadian suppliers, and in 1964 these purchases approximated \$186 million. Upholstery fabrics and carpets, small stampings, hubs, brakedrums, paint, diecastings, tires, seat springs, glass, wheels, axles, propeller shafts, pistons, valves, and headlamps are typical items in this category.

6. Imports of finished vehicles into Canada: Turning from components to finished products, GM of Canada and GM Diesel, Ltd., import vehicles of types not made in Canada from GM divisions in the United States. These are low-demand vehicles—chiefly Cadillacs and the larger Buicks and Oldsmobiles, plus a few Pontiacs, Chevrolets, trucks, and buses. All told, 6,000 vehicles were imported from the United States in 1964.

7. Unit Sales of GM of Canada: Sales of cars and trucks by General Motors of Canada have grown substantially over the years, reaching 100,000 units in 1928, 200,000 in 1953, and 300,000 in 1963. Last year sales were held to 293,000 units as a result of strikes in this country and in Canada which seriously affected production in the fourth quarter. During the rest of the year GM of Canada and McKinnon, as well, I believe, as most of their suppliers, operated at capacity, as they did during 1963.

CANADIAN AUTOMOTIVE INDUSTRY BACKGROUND

1. Growth prospects of Canadian industry: Growth prospects for the Canadian motor vehicle industry are considered better than for its U.S. counterpart. For one thing, with immigration a larger factor, the population of Canada is expected to grow faster than that of the United States. Starting from a lower base, personal income is expected to show a larger percentage increase. As Canadian incomes rise, more people will become car owners and more car owner will become two-car owners. Cars per 100 persons should increase from the present level of 26 in Canada much closer to the U.S. figure of 35. Canada now is scrapping cars at a rate of over 6 percent annually compared with a rate 5 years ago of about 5 percent. These rates compare with an American scrappage rate—which Canada can be expected to approach eventually—of $8\frac{1}{2}$ percent.

Weighing all of these factors—it is estimated that by 1970 annual vehicle sales in Canada should average 850,000 units, up 33 percent from the 1962–64 average of 641,000. By comparison, U.S. industry sales by 1970 are estimated to average more than 10 million units, an increase of over 14 percent from 1962–64.

2. GM Expansion Program in Canada: To meet anticipated future demand, the Canadian automotive industry is expanding its facilities. General Motors of Canada, for example, is building an assembly plant near Montreal and a truck chassis plant in Oshawa, while McKinnon is expanding its facilities at St. Catharines. GM of Canada is also building a “soft trim” plant in Windsor, and this plant will temporarily have some excess capacity which will be used to balance out GM trim requirements in other areas. Overall, however, these new facilities are designed to help keep pace with the future growth of the Canadian motor vehicle market.

3. Benefits of expansion program to United States: It should also be emphasized that U.S. production will benefit, too, from the growth of the Canadian motor vehicle market because Canadian vehicles will continue to contain a substantial number of parts made in the United States. Furthermore, as the Canadian motor vehicle market grows, the entire Canadian economy will benefit and this will be a stimulus to other export industries in the United States.

4. How Canadian automotive market differs from United States: The Canadian motor vehicle market has always differed from the U.S. market in a number of respects, most of them stemming from the difference in size. The large demand for cars and trucks in the United States has made it possible for domestic motor vehicle manufacturers to use mass production techniques and achieve economies of scale. As a result, the industry has never sought tariff or other forms of protection.

5. Effect on Canadian production: Of necessity, because of proximity to its U.S. counterpart, the Canadian industry has always been protected by tariffs, by content requirements, or by other means. Because the market was relatively small, mass production methods could not be used to the extent possible in the United States, and a single plant often has had to produce or assemble a great variety of models, parts or components.

6. Examples of production diversification: To cite one example, GM of Canada's Oshawa plant is assembling this year a total of 595 differ-

ent passenger car and truck models. By contrast, the most complex assembly operation in the United States has to turn out only 256 models, less than half the Oshawa total. The Canadian operation is further complicated by the fact that customers there have substantially the same choices of colors and trim, equipment and accessory options as do those in the United States.

Machine and stamping operations also are not the same in Canada as in the United States. Long production runs are not possible and frequent tooling changes are necessary. In the United States a single stamping press may turn out the same fenders day after day over an entire model year. In Canada, a similar press may run 5 days stamping out Chevrolet right fenders then be down for 36 man-hours to change dies, then run 5 days on left fenders, then shift to a run of Pontiac fenders, and so on.

7. Economic result: All this means that costs are higher in Canada and prices higher as a result. Cars are kept in service longer in Canada than in the United States, and it costs more to buy a used car.

8. Benefits of tariff exemptions to Canadian consumer: On the other hand, Canada's long-standing policy of exempting from duty imported parts and components not capable of being made in Canada except at prohibitive cost has benefited the Canadian consumer as well as the U.S. industry. To what extent may be indicated by the fact that in 1964 about 48 percent of the \$219 million of components and service parts imported from the United States were admitted duty free.

The Canadian consumer has always been subjected to the same advertising and promotional stimuli from newspapers, magazines, television, and radio as has the U.S. consumer. These stimuli have created in him a desire for the same range and variety of models and options as has his counterpart in the United States. The policy of exempting from duty almost half of the components imported from this country, together with the policy of permitting dutiable importation of low-volume U.S. models not made in Canada, has made it possible for him to enjoy this range and variety of product.

The enjoyment has come at a price, however, as I pointed out a moment ago. Passenger cars and trucks cost more in Canada than they do in the United States.

9. Benefits to United States of Canadian export business: As I indicated earlier, U.S. industry—and U.S. workers as a result—have had the benefit of a substantial Canadian export business, Canada having always been by far our best automotive export customer. I have already cited the components and service parts imported by our Canadian subsidiaries and would only add at this point that in 1964 the total of such imports into Canada, plus vehicles, was \$241 million. Of this total, \$46 million represented imports from U.S. suppliers which are not GM divisions.

THE CURRENT PROBLEM

1. Changed Canadian merchandise trade picture: It seems clear that the Canadian automotive production system has benefited both Canada and the United States. The United States continues to benefit directly in its merchandise trade account, but for Canada, the economic picture has changed in recent years.

At one time Canada was second only to the United States as an exporter of motor vehicles. Even up until 1949 she was a net exporter of vehicles, and up until 1950 she was able to more than pay for her imports of vehicles and vehicle parts by her exports of grain, minerals, lumber, woodpulp, and other products.

While the 1950's brought increasing prosperity to the Canadian economy and there was a substantial increase in purchases of new cars, Canada's balance of current account transactions took an unfavorable turn. Imports into Canada increased generally, but particularly automotive imports, so that the adverse current account balance for automotive products rose from \$133 million in 1949, before Korea, to \$242 million in 1954, to \$505 million in 1959. As in the United States, there was a large influx of smaller European cars.

2. Effect of automotive trade deficit on Canadian current account balance: At the same time, exports from Canada were declining, with the result that total Canadian current account transactions showed an unfavorable balance in every year except 1952. For the 4 years 1956-59, the annual deficit averaged \$1,364 million. This deficit originated in United States-Canadian trade, Canada's balance with the rest of the world having been favorable in every year except 1959.

Most significantly, the automotive trade deficit for the years 1954 through 1959 amounted to 28.5 percent of the unfavorable balance with the United States and was equal to 32.4 percent of the entire trade deficit. Thus, it cannot be considered unnatural for Canada to have looked to the automobile industry when studying ways to improve its overall trade position, particularly in view of the fact that, whereas, Canadian automotive consumption in 1959 represented about 7 percent of the North American market, Canadian production, measured by content, accounted for only about 4 percent of North American output. I might add that these ratios have not changed materially since then.

3. Canadian moves to solve the problem: (a) The Bladen report: On August 2, 1960, an Order in Council created a royal commission consisting of one member, Dr. V. W. Bladen, "to inquire into and report upon the situation of and prospects for the industries in Canada producing motor vehicles and parts therefor." The Bladen report was completed in April 1961. Its recommendations, generally speaking, were aimed at bringing about a closer integration of the North American automotive industry on the theory that Canada would eventually benefit from an increase in the percentage of components and parts made there. One specific recommendation was abandonment of the excise tax, and this was repealed on June 20, 1961. None of the other recommendations by Dr. Bladen were adopted, but the report, focusing attention as it did on conditions in the motor vehicle industry, may be considered to have been the genesis of a number of other subsequent developments.

(b) Duty remission on automatic transmissions: In November 1962, the Canadian Government took a step toward reducing the automotive trade imbalance by failing to issue its heretofore annual Order in Council exempting automatic transmissions from a duty of 25 percent. At the same time an Order in Council provided that this 25 percent duty could be recovered by a manufacturer to the extent that he increased certain automotive exports over a based period fixed as November 1, 1961, through October 31, 1962. For each dollar of

Canadian content of these increased exports, he would be permitted to import \$1 worth of automatic transmissions duty free.

(c) Duty remission program broadened: On November 1, 1963, a new Order in Council extended the duty remission program to all imported automotive vehicles and most of the parts and accessories used in the production of vehicles in Canada. Remission was based, as in the case of transmissions, on increased exports of Canadian content over the same base period—the 12 months ending October 31, 1962.

4. Effect on General Motors: General Motors was able to accommodate its operations to these changes. At the time of the duty change on automatic transmissions, General Motors' automatic transmission facilities in the United States had been having difficulty keeping pace with demand. It was decided, therefore, to start assembly of automatic transmissions at McKinnon's Windsor plant. Production of some components was also begun at Windsor with the remainder being furnished from the United States. Beyond this, both McKinnon and GM of Canada were able to increase their overseas exports, particularly of vehicles to Commonwealth countries. Component exports to GM plants in the United States, incidentally, were not increased but have stayed below \$1 million in every postwar year except in those when normal U.S. supply lines have been disrupted by strikes or other causes. Normally, these component exports from Canada consist of low-volume items, one example being right-hand drive instrument panels which are not in demand in this country.

5. Discussions by two governments: No objections were raised to remission of duties until May 1964—19 months after the transmission plan and 7 months after the broad plan became operative. Then, a U.S. parts manufacturer supplying one of the U.S. vehicle producers lodged a protest with the Treasury Department and asked that countervailing duties be imposed on Canadian automotive parts that were being shipped to the United States.

Since then we understand numerous meetings of representatives of the United States and Canadian Governments have been held for the purpose of finding a solution to Canada's trade deficit problem that would not result in a tariff war or in steps that would be detrimental to the interests of either country. In addition, representatives of the State, Treasury, and Commerce Departments have from time to time asked General Motors for factual information and sought its views on various aspects of the problem. Similar requests to GM of Canada have come from officials in Canada. In both this country and in Canada, GM executives have cooperated at all times in answering these requests.

General Motors representatives have provided factual information and comments as requested but we have not initiated any suggestions.

THE GENERAL MOTORS POSITION

At this point I would like to put in the record a letter which I wrote to the Commissioner of Customs on June 19, 1964, in response to a request in the Federal Register for comments of interested persons. I shall not attempt to read the entire letter but believe it would be helpful to summarize it and quote certain paragraphs.

The CHAIRMAN. Without objection, the letter will be inserted, sir.
Mr. ROCHE. Thank you, sir.
(The document referred to follows:)

GENERAL MOTORS CORP.,
Detroit, June 19, 1964.

The COMMISSIONER OF CUSTOMS,
Bureau of Customs,
Washington, D.C.

DEAR SIR: In response to the request in the Federal Register of June 2, 1964, for comments of interested people on the United States-Canadian automotive export-import situation, may I respectfully bring to your attention the viewpoint of General Motors Corp.

In examining the current situation, we are mindful of the development of the entire North American automotive industry in the past half century. During this period of expanding volume, the Canadian industry grew from close to total dependence on the U.S. sources to its present ability to produce more than 60 percent domestic content. This growth in Canadian sales and production facilities has been beneficial to the economy of the United States as well as Canada. As the Canadian automotive industry expanded, there was an increase in those parts exported to Canada which were economical to produce in the United States.

It is most important to recognize the volume of exports of automotive parts from the United States to Canada. During 1963, General Motors Corp.'s exports from the United States to our Canadian automotive subsidiaries were \$176,430,000. In addition, the U.S. suppliers serving General Motors operations in Canada exported an additional \$42,800,000. In other words, General Motors in Canada imported \$219,230,000 of automotive parts and finished vehicles from the United States in 1963. Indications are that the 1964 calendar year imports will exceed this figure by an estimated 15 percent, principally the result of the increased number of cars needed to meet the current requirements of the Canadian market.

Obviously, exports of this magnitude represent a sizable number of jobs in the United States as well as constituting an important percentage of this company's total exports from the United States to all parts of the world. If we consider the employment in our own plants and other direct suppliers to our Canadian operations plus suppliers of raw materials, parts, transportation, etc., beyond this level, there could be in the area of 16,000 jobs. Over the years, this basis of operation has been a most practical and successful one. Those U.S. plants which have continued to supply parts and components to both the United States and Canadian car operations have continued to do so only because it was the economically sound basis of operation. As Canadian volume increased, employment also increased in the United States for production of parts required by Canadian industry. In addition, performance in these U.S. plants improved and both the United States and Canada shared in the benefits of this improvement.

We recognize there may be situations wherein a given item might be produced more economically in Canada today which would be to the advantage of both the United States and Canadian car manufacturers. In this respect, the Canadian manufacturer, to be successful in selling in the U.S. market, would be required to keep his costs sufficiently low so that the landed cost of his product is competitive with the price of similar products of U.S. manufacturers.

Many of the parts that are currently being exported from the United States to Canada enter Canada free of duty, under the Canadian customs provision that permits free entry of parts "of a class or kind not made in Canada." This duty-free provision is contingent upon the Canadian vehicle manufacturer attaining a required percentage of Canadian (including British Commonwealth) content in Canadian produced vehicles. All of the larger U.S. automotive producers who have Canadian subsidiaries have been required to obtain 60-percent content in their Canadian production. It should be noted that the importation of completely assembled vehicles or service parts is not a part of the content provision.

The parts which enter Canada duty free under the content provision of the Canadian regulations would normally be dutiable at 17.5 percent. This exemption from duty has been a major benefit in developing the business for Canadian-made vehicles which, in spite of the 60-percent Canadian content, still includes a large volume of U.S. content. The significance of this provision is brought out in that approximately \$85 million of the \$219 million of the automotive parts and

vehicles imported for the account of General Motors in Canada from the United States in 1963 were free of Canadian duty.

It would be most unfortunate if any action were taken which would result in Canada applying more restrictive measures to accomplish the objectives sought. There are several alternates available; for example, the Canadian Government could apply duty to many parts which are now imported into Canada duty free. The imposition of surcharges in addition to the statutory duty rate on imported vehicles is another avenue which the Canadian Government might choose to follow and there has been a recent precedent for this. In other instances, duty rates on dutiable items could be increased over present levels. Beyond any of these, the present content of 60 percent could be increased to say 80 to 90 percent, as has been done in other countries. The application of any one or all of these alternates to the present situation could be expected to greatly reduce the present volume of U.S. automotive exports to Canada.

The Canadian duty remission plan provides the Canadian producer with an incentive to increase exports by providing "\$1 of exported Canadian content will earn the remission of duties on \$1 of dutiable imports in excess of exports made during the 12 months ending October 31, 1962." We are not qualified to comment on the rate of incentive provided and it may be that this will require further study to determine the equities of those concerned.

In the opinion of the Canadian Government, the duty remission plan "is a constructive measure from the point of view of the automotive industry in Canada and the United States since it makes possible greater trade and economies of production in both countries."

As the volume of the automotive industry expands on the North American Continent, it seems reasonable for Canada, under the circumstances, to wish to participate more fully in this growth. The current Canadian program would permit Canadian participation in a portion of the overall growth without reducing the absolute levels of exports from the United States to Canada. In fact, U.S. exports to Canada, in our view should continue to increase.

The development and growth of the automotive industry over the years in both the United States and Canada has proven beneficial to both countries. The export of U.S.-made parts for and/or from Canadian production of automobiles, trucks, and motor coaches has provided significant employment in the United States. The automotive industry, in turn, contributes importantly to the Canadian economy. Any measures applied by either country which might disturb the present level of business or anticipated growth of the automotive industry could adversely affect the advantages which both countries currently enjoy.

Yours truly,

J. M. ROCHE,

Executive Vice President.

Mr. ROCHE. In this letter I made these points:

1. Growth of Canadian industry beneficial to both countries: We are mindful of the half-century history of the North American automotive industry and of the growth of the Canadian sector to the point that the vehicles it produces now average 60 percent Canadian content. This growth has been beneficial to the economy, not alone of Canada, but of the United States as well.

2. U.S. participation has helped both countries: U.S. plants have found it economically sound to supply parts and components to both United States and Canadian car operations. As U.S. manufacturing performance has improved, both the United States and Canada have shared in the benefits. Furthermore, as Canadian volume has increased, so has production in the United States and, along with it, employment.

3. Value of exports to Canada: In 1963, for example, exports of automotive parts and finished vehicles from the United States to our Canadian automotive subsidiaries exceeded \$219 million. Of this total \$176 million represents exports from GM divisions in the United States and \$43 million represents exports from other U.S.-based suppliers. Exports of \$176 million represent about 31 percent of GM's

product exports from the United States. They also represent, directly and indirectly, in the area of 16,000 jobs.

4. Duty-free imports into Canada: We considered it significant from the standpoint of our economy that the Canadian Government permitted GM of Canada to bring in duty free about \$85 million and of the \$219 million of automotive products it imported from the United States. These parts were "of a class or kind not made in Canada," and their importation, duty free, was contingent on GM of Canada's having at least 60 percent Canadian content in the passenger cars and 50 percent content in the trucks it builds. This duty-free provision helped keep down the price of Canadian vehicles, thus increasing Canadian volume and hence the demand for U.S. exports.

5. Importance of remission plan: As automotive production expanded on the North American Continent, it seemed reasonable for Canada to wish to participate more fully in this growth. The remission plan made it possible for the Canadian producer to be more competitive in world markets, and, in the opinion of the Canadian Government, was—and I now quote—

a constructive measure from the point of view of the automotive industry in Canada and the United States since it makes possible greater trade and economies of production in both countries.

6. U.S. exports expected to rise under plan: It permitted Canadian participation in a portion of the overall growth of the industry without reducing the absolute level of exports from the United States to Canada. In fact, in our view U.S. exports to Canada could have been expected to continue to increase.

7. Danger of more restrictive measures: In my letter to the Commissioner of Customs last June, I expressed the opinion that—and I again quote:

It would be most unfortunate if any action were taken which would result in Canada applying more restrictive measures to accomplish the objectives sought. There are several alternatives available. For example, the Canadian Government could apply duty to many parts which are now imported into Canada "duty free." The imposition of surcharges in addition to the statutory duty rate on imported vehicles is another avenue which the Canadian Government might choose to follow and there has been a recent precedent for this. In other instances, duty rates on dutiable items could be increased over present levels. Beyond any of these, the present content of 60 percent could be increased to say 80 to 90 percent, as has been done in other countries. The application of any one or all of these alternates to the present situation could be expected to greatly reduce the present volume of U.S. automotive exports to Canada.

THE AUTOMOTIVE TRADE AGREEMENT

1. Proposed solution is a "workable plan": As it happened, the Canadian Government fortunately chose none of the courses referred to in my letter. In meetings with our own Government and with representatives of the industry, still another solution was proposed which is the subject of this hearing.

It is the belief of General Motors that the Automotive Products Agreement, while not free of difficulties, is, over a period of time, a workable plan. It was worked out by representatives of the two Governments and freely entered into on both sides.

While General Motors must respect its provisions, we had nothing to do with evolving either it or the remission plan. In fact, we had

found the original arrangements with respect to content and duties quite satisfactory and had no reason to want a change.

It was our belief that any problems could have been worked out satisfactorily over a period of years.

The changes that have occurred were brought about by the desire of the Canadian Government, beginning with the Bladen report in 1961, to come closer to balancing its trade account by a greater participation in the North American motor vehicle market—a participation to which it felt its own demand for cars and trucks entitled it.

2. Effect of plan on U.S. industry growth pattern: I pointed out at the start of this statement that by 1970, as a result of normal growth forces, vehicle sales in Canada will reach an estimated annual average of 850,000 units compared with a 641,000 average for the past 3 years. In the United States it is estimated sales will grow from an 8,770,000 average for the past 3 years to more than 10 million units by 1970.

(a) Estimated 1970 U.S. output: Giving consideration to the U.S. content which will remain in all Canadian vehicles as well as to the dynamic forces for expansion in this country, it is apparent that the U.S. industry will maintain a substantial growth pattern even after taking into account the increased Canadian content sought by the Canadian Government. By 1970 total output of the U.S. industry in terms of cost of production should reach an estimated \$17,500 million annually compared with an average annual figure of \$15,100 million for the past 3 years.

(b) Assures United States of continued participation in Canadian market: The new agreement assures the United States industry of continued participation in the faster growing Canadian market, a participation that might otherwise have been preempted by some other country or that could have been ended unilaterally by Canada through increased content requirements or by some other measure. As the Canadian motor vehicle industry prospers and grows, there will certainly be a fallout effect on other industries in Canada. This in turn can be of significant benefit to U.S. firms doing business with these industries.

(c) Substantial investment required: The integration of Canadian and U.S. automotive production will require substantial investments in and realignment of manufacturing and assembly facilities. Until these facilities can be fully coordinated for maximum efficiency, Canadian costs will continue to be higher than those in the United States. Over the long term, as the North American market grows and full capacity utilization is achieved, the economies of both the United States and Canada should benefit.

CONCLUSION

In concluding this statement, may I again quote from my letter of June 19 to the Commissioner of Customs. The final paragraph read as follows:

1. Both countries benefit from automotive industry:

The development and growth of the automotive industry over the years in both the United States and Canada has proven beneficial to both countries. The export of U.S.-made parts for * * * Canadian production of automobiles, trucks, and motor coaches has provided significant employment in the United States. The automotive industry, in turn, contributes importantly to the Cana-

dian economy. Any measures applied by either country which might disturb the present level of business or anticipated growth of the automotive industry could adversely affect the advantages which both countries currently enjoy.

2. GM policy on carrying out obligations: Finally, let me say that General Motors operates plants and does business in many parts of the world. The conditions under which we operate and the laws governing our operations vary from country to country. In each country, however, we endeavor scrupulously to observe to the letter the laws, local regulations, and customs of that particular country. We work to carry out our obligations as a manufacturer in a way that will be beneficial to our customers, to the economy of the country itself, to the economy of the United States and to General Motors.

3. GM's obligation under automotive trade agreement: In the present instance we see an obligation as corporate citizen both of the United States and of Canada to attempt to accomplish the objectives of this agreement, which was freely negotiated by the two governments and freely entered into in the belief that it was in the best interests of both countries. We are confident of our ability to operate under the agreement and to continue to make our contribution to the economies of both the United States and Canada.

Thank you very much.

The CHAIRMAN. Thank you, sir.

Are there any questions?

Mr. BYRNES.

Mr. BYRNES. Mr. Roche, I think you put it quite well, the Canadians made an effort to balance their trade account and their biggest deficit in a sense was in the automobile industry.

Mr. ROCHE. That is correct.

Mr. BYRNES. They sought in that area to do something to increase the Canadian labor content or economic content in the automotive production that was going to be produced in Canada rather than being imported.

That is what they focus their attention on.

Mr. ROCHE. That is correct, the general objective of the program was to provide for a larger share of the North American market for Canadian production.

Mr. BYRNES. And to do that they devised this tariff remission scheme which in your testimony you said you found workable as a corporate citizen of both countries?

Mr. ROCHE. That is right.

Mr. BYRNES. But the remission plan did run into complications by creating a situation where under our law we would have to take retaliatory action by countervailing duties.

Mr. ROCHE. The demand made for countervailing duties?

Mr. BYRNES. So that we would probably have to find some other solution rather than the duty remission plan and that is what gave rise then to seeking alternatives?

Mr. ROCHE. I think that that in essence is right although there was some question in the minds of many people as to whether or not countervailing duties would have been imposed.

Mr. BYRNES. Well, that may be true but if you were absolutely sure that countervailing duties might not have been applied, you would not need this agreement, isn't that true?

Mr. ROCHE. Yes.

Mr. BYRNES. Let nature take its course?

Mr. ROCHE. That is true and a search was made for a different way to accomplish this.

Mr. BYRNES. As far as the automobile manufactures are concerned, who also operated in Canada, there was no particular problem to meet the requirements and live with the duty remission plan.

Mr. ROCHE. I think speaking for ourselves that we could have lived with the plan, very satisfactorily.

Mr. BYRNES. So other alternatives were explored as to how Canada really could get a bigger share of the automotive production?

Mr. ROCHE. I think that that is right.

Mr. BYRNES. And the feeling was I gather that Canada had a problem, that it could take unilateral action and that it was in our best interest to seek a solution. We knew we were going to be cutting back some if we were to have complete free trade, is that true?

Mr. ROCHE. I think that is true but it is our belief as I pointed out in the statement that the normal growth of the North American market over the next few years is sufficient to preserve our absolute levels of production and even increase it but at the same time permit Canada to enjoy a larger share of it.

Mr. BYRNES. But, if we are talking in terms of percentages, it was in our interest to maintain as high a continuing percentage as possible, recognizing however that that percentage was going to be reduced by that pressure.

Mr. ROCHE. Yes.

Mr. BYRNES. And the Canadians would increase their percentage?

Mr. ROCHE. Canada wanted to increase their percentage. I think stating this quite simply based on our analysis of the market over the next 5 years it is our opinion that the net effect of this agreement means that of the total growth in the North American car market, instead of the United States enjoying 93 percent of that growth in terms of dollars of production that under this agreement assuming that it is the legislation enacted, would amount to 84 percent. So we are talking about the difference, in our opinion, of 93 percent of the growth for the United States versus 84 percent.

Mr. BYRNES. What I am trying to do is get clear, not only in my own mind but in the record, the factor that brought about this agreement. What we are trying to do is seek that which will give the United States as much as possible of the automotive production, recognizing that pressures to reduce our share must be met, and to come out as best we can. Nobody can say that this agreement will be beneficial to the United States except as they add the fact that Canada could do and would do something worse, if we did not have the agreement or if we did not work out some method to improve the Canadian balance-of-trade account.

Isn't that really what we are talking about? We are not talking about something that by itself is beneficial to the United States. It is beneficial only in a sense that we recognize what Canada could do and probably would do if left to its own devices, if left without any kind of an agreement, or any kind of a program.

Mr. ROCHE. I think it would be very nice for us in the United States to have it all if we could get it but I don't think that is quite a realistic approach.

Mr. BYRNES. Starting with the percentage we have today and the percentage of growth in the Canadian market, we have to recognize that we are going to have less of that percentage in the future growth than we enjoy today.

Mr. ROCHE. To the extent that Canada will increase its participation, of course our participation will decline to a comparable extent, as business done with the United States in the automotive sector. However, again it is our opinion that the combined growth of the automotive industry for both the United States and Canada is going to be very beneficial to both countries and that the extent of the investments contemplated by this program will be more than compensated for by the benefits which will derive from this growth and from what we believe will be the increased prosperity of both the United States and Canada.

Mr. BYRNES. I understand that. I think we must make it clear that we can't say that this agreement is going to improve the situation as far as U.S. production of automobiles is concerned. It is going to improve our situation only by reference to what the damage that could be done to it if Canada took a unilateral action.

Mr. ROCHE. We think it will improve the absolute totals.

Mr. BYRNES. Of course the market will improve that.

Mr. ROCHE. Well, yes; both the market and the extent to which we will be able to participate under this agreement in that growth in Canada.

Mr. BYRNES. There again you are bringing in the fact that Canada could do it.

Mr. ROCHE. Yes, and Canada of course is a sovereign country and they could follow the route that has been taken by many other countries and say, well, on and after a certain date the local content is 90, 95, or 100 percent as has been done in some countries. That, of course, would effectively shut off the export of automotive components of vehicles to Canada from the United States.

Mr. BYRNES. There again we are presenting this in the context of recognizing what Canada possibly could do unilaterally.

Mr. ROCHE. That is right.

Mr. BYRNES. Faced with a balance-of-accounts problem in Canada, you think this is better and a more satisfactory solution, and that for this reason in the long run it is beneficial.

Mr. ROCHE. We think it is a much more satisfactory solution.

Mr. BYRNES. Than compared to what Canada could do on a unilateral basis?

Mr. ROCHE. I would agree with that, Mr. Byrnes, yes.

The CHAIRMAN. Mrs. Griffiths?

Mrs. GRIFFITHS. Thank you very much. I would like to express my appreciation for Mr. Roche coming here. I have tried to explain to this committee for a long time that Detroit really did invent the 20th century and I want to thank you for backing me up.

Mr. ROCHE. Thank you very much.

Mrs. GRIFFITHS. I would like to ask you further, isn't it true that one of the possibilities for Canada would have been to have changed the pattern of trade? Could they not also have resorted to European?

Mr. ROCHE. Yes, that is a very good point, Mrs. Griffiths. Canada at one time sold or imported I think a high of 27 percent of their

total automotive consumption in Canada of European cars. That of course, would have been another route they could have taken.

Mrs. GRIFFITHS. It would have been very detrimental to us.

Mr. ROCHE. It would have been very detrimental to us and to the automotive industry in the United States.

Mrs. GRIFFITHS. In spite of what Mr. Byrnes feels in the long run there will not be any real advantage to us. Isn't it also true that as this increased market becomes available to the United States that then it increases the possibility of reductions for everyone in pricing?

Mr. ROCHE. Time only will answer that question. I think the prices in Canada of course are different from those in the United States; they are higher in Canada because the cost of production and the cost of material in Canada are substantially above those in the United States. I think that we have to recognize, however, that in the pricing of our U.S. products and in the size of our automotive industry in the United States that we already enjoy in the pricing structure of our vehicles the economies of very large-scale mass production.

As a matter of fact, production currently is at a very high level. So how much of an effect it would eventually have on the U.S. prices—

Mrs. GRIFFITHS. It would increase?

Mr. ROCHE. It could, after the changes and realinement that would have to be taken to accommodate the operation of both the U.S. and Canadian industry to this program, there will be economies which eventually should benefit both countries, which should benefit Canada, which would benefit in the form of better economy and expanded business. As costs come down I think it is reasonable to expect that some of those savings would eventually be reflected in the price of the products.

Mrs. GRIFFITHS. Well, I hope, Mr. Roche, that what has really happened then, is that you have begun the building of a market of the Americas. I hope that we bring in some of the rest of these nations and that other products come in. It seems to me that this will do a great deal more to make the Americas safe than anything that has been done so far.

Mr. ROCHE. I agree with that and I think that assuming this legislation is enacted and that this program can be carried on in an orderly manner with consideration on both sides that this can be a very important step in the direction of accomplishing that objective.

Mrs. GRIFFITHS. Thank you.

The CHAIRMAN. Mr. Curtis.

Mr. CURTIS. I think this has been a very good presentation and exceedingly helpful. I must say that I am deeply concerned about the approach that is being taken here, concerned because this does constitute almost a diametrically different approach than the United States has been taking in the trade areas.

First we moved from the bilateral to the multilateral approach and then we moved from the product-by-product approach to trade negotiations. I think every industry would like to have its own trade situation considered alone with its full ramifications. Such trade is much easier to understand on a bilateral rather than a multilateral basis.

But the very points that you are making here involving the balance of payments in Canada and their overall growth and their automo-

biles are important. There are a lot of other industries and products and here we are supposedly engaged in negotiations with Canada along with other countries over in Geneva under the Kennedy round.

Do you regard this as changing our basic approach on trading and pointing the way to the future? Maybe we should take the chemical industry and relate it to Canada and Mexico. Do you think that this is progressive, just because it would benefit the automobile industry in this particular instance?

Mr. ROCHE. Well, I don't think that we regard this as a different approach.

Mr. CURTIS. Why don't you?

Mr. ROCHE. Because I think the automotive industry is in a peculiar position with respect to Canada.

Mr. CURTIS. Let me interrupt, if I may, just to follow the line of questioning. Do you not think the wood and pulp industry could say the same thing? Anyone can deal with an individual commodity. Of course, it has its own problems and is an economy factor in both.

What I am trying to discover is why you find that this industry is so distinctive that it justifies a different approach.

First of all, do you agree with what I said that this is a different approach?

Mr. ROCHE. No.

Mr. CURTIS. Every industry can say that it is especially different. Now, what is there about this that justifies our changing our rules?

Mr. ROCHE. Again, I think I will have to go back to the statement that I made earlier that this is applicable to the automobile industry because, No. 1, from the standpoint of both countries it represents a very substantial amount of trade between the two countries.

The industry operates under the same ownership to all intents and purposes between Canada and the United States. Most of the Canadian operations are subsidiaries of our U.S. companies. The problems are comparable. We are dealing in a mass production industry where tooling costs and the cost of production are greatly influenced by the volume of production. This agreement represents an interesting approach and an attempt to extend those benefits and the economies that can result from this kind of an integration to both of the countries that are involved.

Mr. CURTIS. Would you use this as a possible base—I happen to think it might be—for development of a common market between Canada and the United States? Is this only a first step?

Mr. ROCHE. Insofar as automobiles are concerned, speaking for ourselves—

Mr. CURTIS. But you have to speak for others.

Mr. ROCHE. Well, speaking for the automobile industry.

Mr. CURTIS. I appreciate that and I understand it. What I am seeking to have you do is place your industry in context with the full picture.

Now, if this applies for automobiles, might it not apply for lumber and paper which are also big trade items between Canada and the United States? Maybe this suggests a further integration. I am not being a devil's advocate in asking these questions. I am asking for information because it might well lead to a very basic and important change in our policy with Canada and one with which I might very

much be in favor. But I do urge, and I wish the administration would approach it in the long range.

I am tired of this expediency approach to each item as it comes up. I would like to look at this as you have looked at it for the automotive industry, but put it in the context of its meaning for long-range trade policy for the United States?

Now in that context, would you suggest how you would feel if we were to extend this to lumber and paper and then possibly move into other areas to ultimately bring about a common market?

Mr. ROCHE. Well, I don't know if I am qualified to speak for the lumber and pulp industry or other industries on this subject. However, I would be of the opinion that if comparable problems existed and if the situation were comparable to the automotive industry, that a similar course of action would be desirable.

In the automotive industry we have never sought tariff protection of any kind. We would like to have all the tariffs removed in every country of the world with respect to our own industry.

Mr. CURTIS. And other than tariff trade barriers?

Mr. ROCHE. And other than the tariff because there are many others that discriminate against the U.S. vehicle in other parts of the world, that is correct.

Mr. CURTIS. Now you are directing your answers to general policy. I have often been critical of American industry which comes and testifies before this committee on subjects of broad policy importance and confines its testimony to its own narrow interests. Do not misunderstand me, that is what we expect from a witness, but any company the size of General Motors certainly must have in mind and should have in mind some idea on overall policy as it would fit in with this. If our longstanding trade rules are broken for General Motors, should they be broken for others? If your answer is "Yes, they should be," that might make sense, but then it might also make sense to break rules for certain reasons, and that is what I am seeking to explore.

If there are reasons why this should be confined to your industry, that this is an ad hoc situation and it is a basic change in our trade policies, it should not go further. I would want to supply the thought that maybe this could begin the development of a Canada-United States Common Market. Has your company thought of this?

Mr. ROCHE. I think we would welcome that approach. I think we would welcome any approach that would make more of the world a Common Market.

We are dealing specifically with this problem at hand and that is our basic approach.

Mr. CURTIS. I thought your paper was so good because you related the industry agreement to overall problems in Canada. But then when I seek to interrogate on that basis you put on the hat of representing just the problems in the automotive industry.

Mr. ROCHE. No, I have given you the wrong impression. Speaking for ourselves and for General Motors, and I am sure the rest of the industry would share this belief, that we would welcome a Common Market approach with Canada or with any other country.

Mr. CURTIS. On labor costs on page 16 you point out the higher costs in Canada. Are labor costs in the automotive industry comparable to the United States or are they lower?

Mr. ROCHE. Basic labor rates in Canada are lower than they are in the United States, as measured by the rate per hour and the fringe benefits that go with it.

Mr. CURTIS. What is that in the automotive industry?

Mr. ROCHE. I would say roughly there are around 83 percent of the U.S. rates measured in the U.S. dollars.

Mr. CURTIS. But because of the efficiencies of the U.S. automotive industry can gain through mass production, the total cost is still greater.

Mr. ROCHE. That is the point that I was going to add, Mr. Curtis; yes, sir, because of these frequent tool changes and die changes and the short runs that I explained in the paper.

Mr. CURTIS. Is the United Auto Workers an intergrated union? Isn't it an international union?

Mr. ROCHE. Yes, UAW represent almost all of the Canadian workers, a very large percentage of them.

Mr. CURTIS. How is that run, do you know? The UAW representatives are going to testify, but do they make their wage policies as they would like them in the international union? Will they be under integrated management both in Canada and the United States?

Mr. ROCHE. Well, of course it is a very close liaison between the United States and Canada. However, the basic wage rate not only for the automobile industry but for virtually all other industries in Canada are lower than in the United States.

Mr. CURTIS. Is it a national wage rate, or does the rate differ through different parts of Canada?

Mr. ROCHE. It differs in the automobile industry I believe from one point to another, but the differences would be very minor in the case of General Motors plants in Canada. We have plants in several different cities and there may be pennies per hour difference in the basic wage rate but we would have the same differences in the United States.

Mr. CURTIS. Do you have that same kind here?

Mr. ROCHE. Yes, sir; the same in the United States.

Mr. CURTIS. You made a note of the fact that Canada has a foreign market in automobiles. What are the prospects there? You told Mrs. Griffiths you are going to get economies of scale. This should assist both the United States and Canada and regain perhaps their exports.

Mr. ROCHE. Yes. However, Canada produces the same type of cars that we do in the United States, which is the North American type vehicle, and that type of vehicle in consideration of the growth in the automotive production of smaller cars in many other parts of the world has not been as great as we might like to have had it.

In addition to which, as you mentioned earlier, we are discriminated against in terms of taxes, gasoline taxes, horsepower taxes and things that might go against the full development of what we think would be a potential for North American vehicles in many parts of the world. Some of these restrictions could be removed.

Mr. CURTIS. Maybe I can get specifically what I am going after by asking this question: Has the Canadian foreign market declined further than that of the United States?

Mr. ROCHE. Yes, it has declined more than the United States.

Mr. CURTIS. Now what is the reason for that?

Mr. ROCHE. I think there are several reasons for that. The costs in Canada have been higher than in the United States. Second, the North American type vehicle which has not competed as successfully as we would like with some of the smaller cars that are being built in other countries and then the same discriminatory measures that apply to cars produced in the United States that apply to taxes and horsepower and gasoline taxes and other things.

Mr. CURTIS. Do you think that other industries might retaliate as a result of this agreement with Canada and therefore make the Canada and United States foreign market smaller?

Mr. ROCHE. I would be inclined to think not, no.

Mr. CURTIS. Why?

Mr. ROCHE. I think percentagewise the volume of cars is so small and the discriminatory measures in the countries that do discriminate have almost reached the saturation point.

Mr. CURTIS. One of the things in our Kennedy Round negotiations as I understand it, was to try to eliminate some of these discriminatory measures. Other GATT members point out that this agreement between the United States and Canada is a violation of GATT, which I think it is. The State Department agrees there will have to be a waiver.

I wonder in what position this agreement will put us so far as trying to negotiate away some of these other than tariff trade barriers and tariffs in the Kennedy Round?

Mr. ROCHE. Well, again I think that insofar as Canada is concerned, it is my understanding that they will be prepared to extend a similar agreement or similar provisions to any other country or any automobile industry of any other country that wants to participate in the Canadian market and so far as we are concerned in the United States, again we would welcome the complete abolition of duties and free trade in the automobile industry.

Mr. CURTIS. Just on this issue of the price to the consumer, perhaps I misunderstood your paper. You indicated that the used car in Canada was a higher cost item and yet the percentage of junking is less. I would think it would be the other way around. If they use their cars longer—

Mr. ROCHE. They do use them longer, Mr. Curtis, but the cars cost more in Canada.

Mr. CURTIS. But why would a secondhand one cost more?

Mr. ROCHE. Because your second car value or used car values have a definite relationship in both this country and in other countries where the new car was sold originally. Inasmuch as the cars are higher priced in Canada, the new ones, starting with a 1-year-old car on down, those cars would cost more in Canada than a comparable model would cost in the United States.

Mr. CURTIS. If the used car market consists of cars 6 and 7 years old instead of say, 4 and 5, I would think the price would be less.

Mr. ROCHE. I didn't mean to imply that the 9-year-old car in Canada would cost more than the 7-year-old car in the United States. We have 9-year-old cars in the United States, too. These junking rates I referred to are the averages. A 6-year-old car in Canada would cost more in Canada than a comparable car would cost in the United States.

Similarly, a 1-year-old Chevrolet would cost more in Canada.

Mr. CURTIS. Is the used car in Canada generally made up of Canadian-made cars or cars we ship up there?

Mr. ROCHE. No, all generated in the Canadian economy.

Mr. CURTIS. All there?

Mr. ROCHE. Yes.

Mr. CURTIS. I will have to think this thing through. I do not understand why the price would be more. It just strikes me it would be less if we used a car longer.

Mr. ROCHE. Again I would like to say that I am not comparing a 3-year-old car in Canada with a 1-year old car in the United States. A 1-year-old car in the United States would cost more than a 3-year-old car in Canada. What I am saying is that a 3-year-old car in Canada would cost more than a 3-year-old car of the same vintage in the United States.

Mr. CURTIS. A greater amount than the ratio between the new and used cars.

Mr. ROCHE. No, approximately the same ratio.

Mr. CURTIS. I see. I read too much into your statement.

Now, by what amount do you expect demand for cars to increase in Canada before any increase in auto prices? You are going to invest more in Canada?

Mr. ROCHE. That is right. I do not think I can answer that question, Mr. Curtis, on the basis of giving you any percentage of investment that would have to occur. Frankly, we do not know yet all of the things that we may have to do in Canada or in the United States to accommodate our operations for this program.

We are currently making studies to determine exactly what we would like to do. We have already taken some steps, as I mentioned.

Mr. CURTIS. By this agreement, I guess this is not in the agreement itself, but it is an understanding as I understand it, between your company and other auto companies to increase your investment in Canada.

How is that? Is that by actual agreement or what is that?

Mr. ROCHE. First, of course, we have no agreement with other automobile companies in Canada.

Mr. CURTIS. Yes. I said what they would be doing, too.

Mr. ROCHE. Secondly, we have no agreement with anybody to increase or decrease or change our investment in Canada.

Mr. CURTIS. Oh. I did misunderstand.

Mr. ROCHE. There are no agreements along that line whatsoever.

Mr. CURTIS. No understanding with the Canadian Government that you are going to increase your investment?

Mr. ROCHE. No, sir.

Mr. CURTIS. The only thing I can say then because of the economics is that you anticipate increase in demand that you would be expanding investment in order to meet that?

Mr. ROCHE. Before this agreement came into effect, they announced some expansion programs in Canada. We announced the construction of our assembly plant at Montreal. We announced the construction of our plant in Oshawa. I think it is reasonable to expect that if this program is to be fully implemented and the objectives are to be accomplished, there will be investment changes in both the United States and in Canada to accommodate it.

Mr. CURTIS. How about the parts manufactured in Canada? Some new investment will go in there?

Mr. ROCHE. I would assume that there would be some new investment among the parts manufacturers in Canada although, of course, I cannot speak for them. I think it is reasonable to expect.

Mr. CURTIS. I understood that they are having some difficulties up there and some of them are going to need additional capital. Are there any plans on taking over some of these?

Mr. ROCHE. We have no plans to take any of them over.

Mr. CURTIS. Do you anticipate any change in the source and if so, would you see any decrease in your use of U.S. parts? This is, as you know, a problem that has been raised.

Mr. ROCHE. Yes, sir that is one of the problems that has been raised and there may be some changes in the source of parts down the road as we get more deeply into this program.

However, we would be hopeful that whatever transitions are involved could be accomplished without reducing the current level of parts being procured in the United States.

Mr. CURTIS. In this industry although we have gotten very fine competition, there is a very high concentration in just three or four companies, but in the parts area we have a considerable lack of concentration which certainly is not comparable.

Isn't the parts industry in the United States widely diversified?

Mr. ROCHE. Yes, it is widely diversified. Of course, these part suppliers in the United States that serve and work with us also have a very important stake in this Canadian picture because we have some 2,200 different suppliers in the United States that are supplying and exporting parts to Canada from the United States to serve our General Motors operations in Canada.

In addition to that, of course, we buy parts from a large number of Canadian suppliers. We deal perhaps with 4,000 or 5,000 Canadian suppliers on the Canadian side of the border, as I think I mentioned.

Mr. CURTIS. Well, that of course, is one of the things that might be a dislocation or change in the present structure of the U.S. parts industry. This would apply, of course, to those who supply directly to you, the original manufacturer, what you call spare parts.

Mr. ROCHE. Replacement parts.

Mr. CURTIS. Replacement parts. That is a somewhat different field, too, is it not?

Mr. ROCHE. Yes. Of course, replacement parts are excluded from the provisions of this agreement at the present time.

Mr. CURTIS. But is it not true that some of your parts manufacturers, or all of them, also make replacement parts?

Mr. ROCHE. Yes, but the replacement parts again are excluded from this agreement, so the agreement would have no effect on replacement parts.

Mr. CURTIS. If they are excluded from the agreement and if there is going to be a real economic impact on them, maybe they ought to be included. If you are going to do a comprehensive job here, maybe you can't keep one part of the automotive industry outside the agreement.

Well, now just finally, and I appreciate your courtesy in clarifying these points, Mr. Roche, I am a little concerned about what I would

refer to as a rather lenient adjustment assistance program in this administration bill.

What I am more concerned about is the changes on technique. The Trade Expansion Act of 1962 included adjustment assistance. I said at the time I thought it was pure window dressing, I did not think it would ever be used and yesterday I interrogated administration witnesses to find out if my understanding is still correct. Maybe this is window dressing here.

But the Tariff Commission is read out of this and there are new subpena provisions in this bill which are unique.

Has your organization got any views on this? Do you think this is all good, too?

Mr. ROCHE. Well, I think that we will prefer that the subpoenaing powers not be in there and that the disclosure provisions that the bill provides would not be a part of the program.

Mr. CURTIS. You will prefer to say amend, rather than exclude them?

Mr. ROCHE. I think if we had a choice that we would prefer not to have them in. However, again it is our belief that the dislocations with respect to our own operations will be very minimal and that those that are involved can be pretty well handled in the framework of our existing policy.

Mr. CURTIS. Would you have any objection to having them set up exactly the way they are in the 1962 act?

Mr. ROCHE. No, we would have no objection to that whatsoever.

The CHAIRMAN. Any other questions?

Mr. SCHNEEBELI. Mr. Chairman.

The CHAIRMAN. Mr. Schneebeli.

Mr. SCHNEEBELI. On page 14 you say that—

It is the belief of General Motors that the automotive products agreement, while not free of difficulties, is over a period of time a workable plan.

What difficulties do you foresee and what recommendations would you make in anticipation of these difficulties?

Mr. ROCHE. I do not think that there are any changes that we could recommend with respect to the implementation of agreement. The difficulties to which I refer are primarily those of logistics with respect to our own operation and those of the people that will be working with us.

Mr. SCHNEEBELI. But there are no policy differences?

Mr. ROCHE. No, sir; there are no policy differences. These are plant and equipment and machining and tooling problems.

Mr. SCHNEEBELI. Operational problems.

Mr. ROCHE. Yes, sir.

Mr. SCHNEEBELI. Thank you.

The CHAIRMAN. Mr. Battin.

Mr. BATTIN. Did I understand correctly a minute ago that you said there had been no agreement made with the Canadian Government as far as General Motors was concerned?

Mr. ROCHE. I think I said that there was no agreement made with the Canadian Government with respect to any investment in Canada on the part of General Motors.

Mr. BATTIN. We were told yesterday by the Secretary of Commerce, that there had been negotiations which our Government did not take

part in, but there had been negotiations with the auto industry and the Canadian Government.

What did those agreements amount to?

Mr. ROCHE. I am glad you asked that because there has been a lot of comment in the press and out of the press of alleged agreements or secret negotiations with the Canadian Government on the part of the manufacturer.

I can speak for General Motors and I can say that there have been no secret agreements, there have been no negotiations. The Canadian Government asked us to write them a letter stating our understanding of the provisions of the agreement as it was finally determined and to ask for our endorsement of the principles to the extent that we did understand them and assigned to us an objective whereby, over the 4 years that are involved in this agreement, we would undertake to increase our Canadian production or our Canadian value.

I have a copy of the letter with me. I will be very happy to read it to this group if they would be interested in it.

The CHAIRMAN. Without objection, it will be included at this point in the record.

(The letter follows:)

GENERAL MOTORS OF CANADA, LTD.,
OFFICE OF PRESIDENT AND GENERAL MANAGER,
Oshawa, Ontario, January 13, 1965.

Hon. C. M. DEURY,
Minister of Industry, Parliament Buildings, Ottawa, Ontario.

DEAR MR. MINISTER: This letter is in response to your request for a statement with respect to the proposed agreement between the Governments of Canada and the United States concerning trade and production in automotive products, as you have described it to us. The following comments assume that the proposed agreement for duty-free treatment has the full support of the respective Governments, and that the program may be expected to continue for a considerable period of time.

It is our understanding that the important objectives of the intergovernmental agreement are as follows: (a) The creation of a broader market for automotive products within which the full benefits of specialization and large-scale production can be achieved; (b) the liberalization of United States and Canadian automotive trade in respect of tariff barriers and other factors tending to impede it, with a view to enabling the industries of both countries to participate on a fair and equitable basis in the expanding total market of the two countries; (c) the development of conditions in which market forces may operate effectively to attain the most economic pattern of investment, production, and trade. We subscribe to these objectives and agree with the suggested approach of removing tariff barriers and moving in the direction of free trade even in this limited area. Such an approach is fully compatible with General Motors' expressed position with respect to the desirability of free trade in automotive vehicles and components, not only in Canada, but in all other countries in the free world.

It is noted that under the proposed agreement the right to import vehicles and certain automotive parts, free of duty, into Canada will be available to Canadian vehicle manufacturers who (1) maintain Canadian value added in the production of motor vehicles in ensuing model years at not less than the Canadian value added in motor vehicle production in the 1964 model year, (2) produce motor vehicles in Canada having a net factory sales value in a ratio to total net factory sales value of their motor vehicle sales in Canada and those of their affiliated companies in Canada of not less than the ratio prevailing during the 1964 model year, (3) increase in each ensuing model year over the base model year, Canadian value added in the production of vehicles and original equipment parts by an amount equal to 60 percent of the growth in their market for automobiles sold for consumption in Canada and by an amount equal to 50 percent of the growth in their market for commercial vehicles sold for consumption in Canada (for this purpose, growth in their market means the difference between the cost of vehicles sold in Canada during the ensuing model year and

the cost of vehicles sold in Canada during the base model year net of Federal sales tax in both cases) and (4) undertake, in addition to meeting the above three conditions, to achieve a stipulated increase in the annual Canadian value added by the end of the model year 1968.

With respect to General Motors, in connection with the conditions outlined in the previous paragraph, it is our understanding, in the case of (1) that Canadian value added would be decreased in circumstances where the value of General Motors sales declined below that achieved in the base year, and in the case of (3) that in the event of a decline in General Motors net value of vehicle sales for consumption in Canada, a decrease in Canadian value added of 60 percent and 50 percent in cars and trucks, respectively, is acceptable. In addition, it is our understanding with respect to (4), that for General Motors the stipulated annual increase in the Canadian value added by the end of the model year 1968 is \$121 million.

We understand that certain changes are proposed in the regulations pertaining to the determination of Canadian value added. We believe that several of these changes require further review and consideration as in our opinion they tend to impede rather than aid in the attainment of the objectives of the agreement.

In particular, these are: (A) the elimination of the profit on components purchased from affiliated Canadian companies, (B) the elimination of profit on sales of vehicles and parts by General Motors of Canada or by Canadian affiliated companies to affiliated companies outside of Canada, and (C) the elimination of depreciation on non-Canadian facilities used in the manufacturing process both in our plants and in those of our Canadian suppliers.

A. We believe that the elimination of the profit element on purchases of components purchased by General Motors of Canada from affiliated Canadian companies is discriminatory. McKinnon Industries, a major supplier of components, has been an affiliate of ours since 1929. McKinnon prices to us are competitive with those for similar components manufactured by other manufacturers. It is a policy of General Motors that pricing between affiliated operations be competitive and the purchasing unit has the obligation of negotiating the best possible price with the supplying unit. McKinnon and other affiliated Canadian parts manufacturers supply parts to other Canadian vehicle manufacturers and the profit on these transactions is not required to be eliminated by those manufacturers. We feel that at most any elimination of profit from value added should be confined to the elimination of profit above the percentage level in the base period.

B. It is our opinion that the elimination of the profit on sales of vehicles and parts produced in Canada by General Motors of Canada and affiliated Canadian companies to affiliated General Motors companies in the United States and other countries is also discriminatory and should be given added consideration. It is recognized in the tariff regulations of most countries that the value of imported goods includes a "reasonable" rate of profit. Further, on sales by nonaffiliated Canadian suppliers to General Motors Corp. in the United States and its oversea subsidiaries the profit in such sales would be considered as Canadian value added.

C. On the matter of exclusion of depreciation on non-Canadian machinery and equipment used in the production of automotive products in Canada, it seems that this only hinders the attainment of the objectives of the plan. In order to increase production in Canada, additional capacity is a necessity either in our plants or those of our suppliers. As much of this required equipment is either unavailable or more costly in Canada, it appears that not allowing depreciation on such equipment as Canadian value added discourages rather than encourages the enthusiasm required to effect the desired increase in Canadian value added. It should be noted, however, that it is our intention to maintain our present policy of obtaining any additional machinery and equipment in Canada whenever economically feasible.

You have requested that we should increase Canadian value added in our products by \$121 million between 1964 and the end of the model year 1968, as outlined under condition (4). Also you have requested that the amount should be further increased to the extent required under condition (3) stated above. We think that this objective in that time is extremely ambitious, particularly in view of the fact that one-half of the first model year has already passed.

We have carefully reviewed our situation in the light of your proposals and requests and have asked that our affiliates do the same. We can see areas where we can and will achieve a significant portion of your suggested objective of \$121 million increase in Canadian value added by 1968. This is possible because

General Motors of Canada and our affiliated Canadian companies have recently engaged in the Canadian manufacture of certain automotive components heretofore imported. These include the fabrication and assembly of automatic transmissions at McKinnon Industries Windsor plant not only for Canadian requirements but for export to assembly plants in other countries as well. In addition, in the 1964 model year the oversea market for North American-type passenger cars and commercial vehicles has been increasingly served by our plants in Canada. Of course, any slowing down in the rate of growth in the industry or any adverse developments in the economies of Canada, the United States, or other principal markets, or failure to achieve duty-free entry into the United States, would make this achievement more difficult.

To attain your stated objective ratably over the 4 years of the plan amounts to an increase in Canadian value added of \$30 million a year plus growth. Our plans, which have been underway for more than a year, should accomplish about \$60 million of the total or, putting it another way, we can see our way clear to accomplish that portion applicable to the first 2 years of the plan.

Studies are underway of various steps we might take to accomplish that portion applicable to the last 2 years. However, we are and have been operating our facilities in Canada at full capacity, and so, I believe, have most of our suppliers. Therefore, the Canadian value added applicable to the last 2 years will probably require added facilities on our part, or on the part of our suppliers, or both. A further reappraisal of our present facilities and our capacity and those of our suppliers must be made. The extent and nature of any additional facilities can be determined only in the light of the plan as finally published. You can appreciate, I am sure, that all of this takes time.

Subject to the imponderables mentioned above, it is our intention and that of our affiliates to make every feasible effort to meet the objectives of the agreement to be made between the Governments of Canada and the United States, and to achieve the indicated goal as rapidly as possible.

Referring again to the items which appear to impede the program, we hope you will review your position further in the light of the information included earlier in this letter.

In conclusion, therefore, I am prepared to say at this time that, first, General Motors of Canada has plans underway to increase Canadian value added by about \$30 million in each of the first 2 years of the plan; and second, we are continuing our studies of ways to accomplish the remainder of the program and will undertake to meet the full objective of \$121 million by the end of the model year 1968.

It is anticipated that these studies will take between 3 and 4 months to finish, and I will be prepared to discuss the results with you when they are completed. From time to time, as requested, we will be glad to discuss our current operations and our plans for future development with the Minister of Industry, and to receive and consider his suggestions.

Sincerely,

E. H. WALKER.

Mr. BATTIN. I believe it was the Commerce witness yesterday that advised us that though they had not taken part in the negotiation that there were no surprises in the content of the letter of understanding.

In making it a part of the record, I presume it will also be made available to the committee so that when we have the opportunity to read the agreement it will be taken in the context of reading not an agreement between Canada and the United States but really two agreements or two understandings: one between countries and one between a foreign power and the industries. In other words, not only of the United States but of Canada as well.

Mr. ROCHE. These letters simply state our understanding of the program as it has been reported in the press almost from the day the agreement was signed by President Johnson and Prime Minister Pearson.

There is nothing in our letter except the specific amount by which we have undertaken to increase. The industrial total has already been published in many newspaper accounts of the agreement.

Mr. BATTIN. In your opinion, could the situation that arose between Canada and the United States or the position that the auto industry is in now in Canada, could this have been changed by action between the Canadian Government and the automobile manufacturers in Canada without the necessity of the agreement President Johnson signed and this implementing legislation?

Mr. ROCHE. It could have been changed very simply by the Canadian Government if they elected to take unilateral action to cause a higher Canadian content on the production of vehicles for sale in Canada.

Mr. BATTIN. Isn't that in effect what has happened now?

Mr. ROCHE. Not in the same measure it has applied in the other countries.

Mr. BATTIN. I appreciate that.

Mr. ROCHE. To that extent it makes for a better customer for the United States. It makes for a better value to the Canadian consumer, it makes for an expanded industry in both countries. So that extent, it is a much better arrangement between the countries.

The CHAIRMAN. Mr. Collier.

Mr. COLLIER. Mr. Roche, this question should probably have been directed to those who testified yesterday. The time being limited as it was, perhaps you could shed some light on it. Do you think the customs inspectors are going to be able to determine without difficulty whether or not the components are actually going into production or into after market sales?

Mr. ROCHE. I think that they will be able to do that, but I think beyond that it would be more important to anybody who would question that application, questioning the integrity, in our case, General Motors, or any other automobile manufacturers. The proposed agreement provides adequate penalties for any deviations from that procedure. I do not think that we have any cause for concern about that particular part of the program.

Mr. COLLIER. Might I suggest that I do not think that competency and integrity would be involved but rather placing the burden of proof upon the importer or the exporter, as the case may be. For example, I do not think it was intended that there was any void of integrity on the part of those who imported parts for farm machinery equipment and yet the problem became one entangled in redtape merely because the requirement or the burden of proof was placed upon the importers.

Mr. ROCHE. In our case, we would be the importer and we will be importing perhaps parts only for original equipment. If we took advantage of the duty-free provisions supposedly the provisions for importing parts, and then diverting them to the replacement market, that would be our responsibility.

What I am saying is that we would certainly not do anything like that. Therefore, I am unable to understand the concern that has been exhibited in this particular program. I have read about it in publications.

Mr. COLLIER. Mr. Roche, in reading your statement here I became curious to know the reason or the reasons you might offer for the fact that there is such a difference in the buying patterns of our Canadian friends. Your statement indicated there were some 500 different automotive models that were produced in Canada.

Mr. ROCHE. 595, I think it was.

Mr. COLLIER. Yes.

Mr. ROCHE. Cars and trucks.

Mr. COLLIER. 200-plus in the United States.

Mr. ROCHE. I didn't mean to imply that, Mr. Collier. We have equal or more models in the United States. We have a greater variety in the United States. What I was contrasting in that was the production in one plant in Canada at Oshawa of these 595 models versus production in one plant in the United States where, of course, we have many different plants. We have more than 120 different plants, not all assembly plants, but in these plants we can divide up the responsibility for this mix and get long runs of similar components, whereas in Oshawa, they all come together in one plant.

Mr. COLLIER. I did not construe your statement that way.

Mr. ROCHE. I didn't mean to imply that the variety was greater in Canada, it is not. The variety in one plant in Canada is greater than any we have in the United States.

Mr. COLLIER. This, of course, has an effect upon the production cost.

Mr. ROCHE. That is right.

Mr. COLLIER. Can you foresee, therefore, as the integration expands, that the efficiency of production would produce this disparity in cost between automobile manufacturers in Canada by General Motors in the United States?

Mr. ROCHE. Yes.

Mr. COLLIER. If this is true, have you achieved the same degree of efficiency, then actually the price of an automobile in Canada should be reduced by reason of the fact that your labor costs is about \$210, is it not, less in Canada than it is in the United States?

Mr. ROCHE. \$210.

Mr. COLLIER. That is based on figures of some years ago. Perhaps it would be somewhat different now, 300 man-hours going into the production of an automobile, roughly 70 cents an hour more for wages in the United States than paid in Canada.

Mr. ROCHE. It will be far more than 300 man-hours going into the cost of an automobile, because I think that before you can determine the number of man-hours that go into the automobile you have to start with the basic material and all the services and everything that go with it.

The basic wage rate, as we discussed a little earlier, is lower in Canada than in the United States. It is about 83 percent, as we would determine it.

Offsetting that wage advantage at the present time is the necessity for accommodating this terrific model mix that I have talked about and the short runs and the constant changing of tooling and dies, and so forth.

Mr. COLLIER. I understand. I say the day will come that with this anticipated greater expansion, the greater efficiency would be produced and therefore you would be able to produce an automobile in Canada at a lower price than in the United States, of course the disparity between the labor cost.

Mr. ROCHE. That is right. I am assuming beyond that that all of the facilities which would have to come into being to accommodate this integration would be fully utilized in both countries which would

have a very important bearing on it. It would have to have a full utilization of our facilities to bring that situation to bear.

Mr. COLLIER. Just two other somewhat brief questions.

No. 1, has the volume or percentage of automobiles imported and sold in Canada—I am talking about imported from countries other than the United States—increased or decreased in the last 4 or 5 years?

Mr. ROCHE. It has decreased, sir.

Mr. COLLIER. It has decreased?

Mr. ROCHE. It has decreased over the last 4 or 5 years rather substantially. That decrease was brought about partially by the introduction of smaller North American-type cars that were introduced in the United States and then into Canada.

Mr. COLLIER. Has the import of foreign made cars, into the United States increased or decreased?

Mr. ROCHE. That has decreased, also. I think we had a high of 9 percent back in 1959, I think it was, and I think last year it was around 5 percent.

Mr. COLLIER. It is dropping lower.

Mr. ROCHE. Yes, sir.

Mr. COLLIER. Thank you very much, sir.

The CHAIRMAN. Any further questions?

If not, again we thank you, sir, for coming to the committee.

Mr. ROCHE. Thank you, Mr. Chairman, for your courtesy.

The CHAIRMAN. Mr. Kendall.

Mr. Kendall, you have been before the committee before in both the capacity of a lawyer and representing the Treasury Department. Please identify yourself for the record.

STATEMENT OF DAVID W. KENDALL, VICE PRESIDENT, LEGAL AFFAIRS, CHRYSLER CORP.; ACCOMPANIED BY SIDNEY L. TERRY, EXECUTIVE ASSISTANT TO GROUP VICE PRESIDENT, INTERNATIONAL OPERATION; AND EUGENE STEWART, SPECIAL COUNSEL

Mr. KENDALL. David Kendall, vice president, legal affairs, Chrysler Corp., Detroit.

I have with me to your left, Sidney Terry who is the executive assistant to the group vice president for international operations of Chrysler Corp., and Eugene Stewart, a Washington tariff lawyer who represents Chrysler Corp. in such matters.

The CHAIRMAN. We recognize you.

Mr. KENDALL. We appreciate very much, Mr. Chairman, and members of the committee, the chance to come here today because we are convinced at Chrysler that timely, thoughtful, and orderly removal of artificial barriers to trade, such as are before you today, will eventually lead to minimum consumer prices and consequent expansion of demand resulting from lower prices for U.S. manufactured automotive products. We have no qualms about competing on an equal basis anywhere in the world or that either the U.S. economy or our own profitability would suffer from freer trade in automotive products.

Indeed, we believe that a great portion of our future market lies outside our borders. And the proposed legislation fits well into our objective of an orderly, planned expansion into these world markets.

Let me preface our statement by saying that we believe there are four impelling and cogent reasons for our support of this United States-Canadian agreement.

This might put our beliefs and our position in context.

First—it is good for the entire industry because it permits operation of a Canadian subsidiary on a basis which provides for the greatest efficiency of both sides of the border.

Second—it increases the potential, not only of the automobile manufacturer, but of all of his suppliers of parts for original equipment.

Third—it forms not only a firmer base for the assurance of jobs, first in the United States and concurrently in Canada, but also an increase of jobs on both sides of the border.

Fourth—and perhaps even more important, it provides an example of considered, careful, and wise taking advantage of the right opportunity as it comes along, and is proof of the efficacy of undertaking such a plan in the right industry with the right country, at the right time.

Canada is the oldest, the strongest, and the most closely allied partner country of the U.S. automobile industry. Canadian affiliates of the U.S. automobile companies date back before the formation of many of the companies themselves, as Mr. Roche pointed out.

For example, what is now Chrysler Canada Ltd., was originally organized under the name of Maxwell-Chalmers Motor Co. of Canada.

In June of 1925 this Canadian company was reincorporated as a part of the newly formed Chrysler organization. The development of the Canadian automobile industry, unlike that of any other country in the world, has paralleled the development of the U.S. auto industry. Today, Canada is the only country outside of the United States, with the possible exception of Mexico, in which U.S. design cars and trucks dominate the market. We quite naturally want to keep it that way.

In order that you might understand better our reasons for supporting this agreement and the implementing bill, we feel that it might be helpful to discuss in a general way the nature of automotive industries in other countries, the relationship of these industries to the U.S. auto industry, and the economic reasons for these relationships, as we see them. We believe such an understanding will help the committee to put the Canadian-United States trade agreement and the implementing bill into better perspective.

The automobile business has from its earliest days been a volume production business, and the basic cost advantage for tooling for high volume has been exploited to the fullest extent by the rapidly growing U.S. auto industry over the past 50 years.

The great advantage of mass production is simply to use the best tooling available to gain the greatest possible efficiency, and then to spread the tooling costs over the greatest possible volume. The result is high quality at a low-unit cost.

We believe the soundness of this principle has been demonstrated dramatically by our U.S. automobile industry. In Europe the motor vehicle industry has developed along the same general lines, but at a slower pace, with more serious and prolonged interruptions due to the two world wars, and with generally smaller, lower powered vehicles designed for narrower roads and shorter distances, and burdened by higher taxes on size and horsepower and more expensive fuel.

The developing countries, which have had less manufacturing capability and lower volume markets from the beginning, have an entirely different set of problems. They have almost always been able to import cars and trucks from the United States or Europe cheaper than they could build them. Yet almost without exception these countries have continued to establish by law or decree more and more self-sufficient auto industries of their own as soon as their national consumption has reached a high enough figure to attract the necessary capital and technical assistance from outside their country.

These cars often sell for as much as twice the price of the equivalent car in the United States because of the inefficiencies and high-unit tooling costs brought about by their lower volumes. Then why are the developing countries insisting on their own auto industries? Why not import cars and trucks from Europe and the United States at lower costs? One often hears the explanation that these countries insist on their own auto industries because of national pride. This is no doubt an important factor, but we must recognize that the decisions to establish these small auto industries in the developing countries are really supported by sound economic factors as well.

We are convinced that once a certain rather low level of development is reached, a developing country simply cannot afford the foreign exchange to import the vehicles required to sustain its development. The cost of the necessary vehicles is simply too high a proportion of a country's GNP to permit them to import their needs.

The continued importation of the vehicles required for its development puts an intolerable strain on the developing crucial balance of trade of the developing country. In an underdeveloped nation, persistent deficits in the balance of trade usually result in a loss of foreign exchange value of the currency. Since these countries import so many of their consumption requirements, this loss of foreign exchange value is practically equivalent to domestic inflation. If the local government attempts to counteract this by granting general wage increases, it can start a genuine inflationary spiral in the domestic economy.

On the other hand, requiring the assembly of vehicles in the home country under the rules of an escalating local content law, while it results in higher cost, does keep the money at home and greatly reduces adverse pressures on the delicate balance of trade. For these reasons, it is quite natural and economically defensible for the developing country to decide to establish its own automotive industry. In most cases, it really has no other choice.

The most common method used to bring about the establishment of an automotive industry in a developing country is for the country to impose local content requirements. This is normally accomplished by prohibiting or putting a high duty on the importation of built up vehicles, and then, either by direct law or by a system of differential duties, requiring the local vehicle assemblers to use a specified percentage of locally produced parts in the vehicles they produce. The percentage of local content required can then be increased from year to year until it may reach 100 percent as it has for all practical purposes in Brazil, or 90 percent, as it has in Argentina. Australia will have a 95-percent local content requirement for major manufacturers of passenger cars by 1970, according to their present plans.

Mexico is presently in the process of establishing its own automotive industry by requiring that the Mexican manufacturer build

engines for his vehicles in Mexico and that the manufacturer source enough additional components in Mexico to bring the Mexican content up to 60 percent. Only last year the Mexican content for Chrysler cars assembled and sold in Mexico averaged 22 percent, this next year commencing next week, May 1, it will average 60 percent.

Requiring local content in increasing percentages may provide a good solution to the developing country's transportation needs. It eliminates or greatly reduces its unfavorable trade balance in automobiles and trucks, creates jobs within the country, and establishes the means of keeping pace with its future transportation needs without sacrificing its trade balance and the stability of its currency. The fact that its vehicles are produced at low volumes and therefore at high cost is on the negative side, to be sure, but in many cases high tariffs and transportation costs on built-up import cars have already conditioned the purchaser to higher prices.

Furthermore, in many developing countries it has often been necessary first to apply high tariffs and sometimes temporarily to ban importation of vehicles completely in order to protect their trade balance and the stability of their currency. So the fact that vehicles are again readily available even at higher prices—is often an improvement both in vehicle availability and in price.

These local content programs are being established at an ever-increasing rate in developing countries, and the investment in facilities, tooling, and manpower required to meet these local content programs are accepted by American automobile companies as part of the cost of doing business in the world market.

By comparison with countries in similar economic situations, Canada has from the beginning maintained a most moderate and at the same time progressive policy toward her automotive industry. She was one of the first countries in 1936 to require a percentage of local or Empire content, but even though her market has grown fourfold since then, Canada has never increased the required local content beyond 65 percent for cars and 50 percent for trucks. In 1964, in a move to achieve lower prices, Canada actually lowered the local content requirement for cars to 60 percent—a most modest content requirement in view of the size of the Canadian market. And that requirement has not been increased in the postwar period.

Canada has also followed the policy since 1936 of permitting duty free importation of parts from the United States when such parts are deemed by Canadian customs as not manufacturable in Canada. Parts in this category have always included major body stampings, with the result that Canada has been able to keep pace with sheet metal changes made on corresponding U.S. makes. This has been strictly a matter of interpretation by Canada, and Canada could at any time have decided to apply duty to any or all of the duty-free U.S. imported car parts.

Interestingly enough, up until the signing of the trade agreement with the United States, Canada exempted from duty about half of the original equipment parts imported from the United States, which constituted about 20 percent of the vehicle value, or about \$250 million worth of original equipment parts in 1963.

As a result of Canada's liberal tariff policies on key parts and components requiring high tooling investments, her modest local content requirements, and the substantial growth of her industry, cars pro-

duced in Canada sell for only about 8 percent to 9 percent more than they do in the United States—allowing of course, for the difference in the value of the Canadian dollar. This penalty is partly due to a higher cost of Canadian manufacturing and partly due to the Canadian duties paid on parts coming in from the United States. On the other hand, some U.S. cars—because of their low demand in Canada—are not now manufactured in Canada. These cars are priced the full amount of duty over the U.S. price, plus handling, transportation, and distribution costs, which amounts to about 25 percent higher in U.S. dollars.

We can now better appreciate just how progressive and how beneficial this Canadian-United States trade agreement is, and how it is really the next logical step in furthering the already excellent economic relationship between the automotive industries of the two countries. The duty remission program, which preceded the proposed trade agreement, was a novel approach toward Canada's particular set of problems. Simply stated, Canada's duty remission program provided the Canadian vehicle manufacturer additional duty forgiveness on vehicles and original equipment parts imported from the United States on a dollar for dollar basis to the extent that the Canadian manufacturer would or could increase his exports over his export performance in the base year. Since no duty was being levied on almost half of the U.S. imported material, corresponding to about 20 percent of the value of the Canadian manufactured cars, the maximum effect of the duty remission program would have been a reduction in Canada's unfavorable automotive trade balance with the United States of about 50 percent.

The duty remission program provided additional incentive in the form of duty forgiveness for the Canadian vehicle manufacturer to source in Canada for export to the United States and elsewhere in the world. But since Canadian duties remained in effect on parts going into Canada unless offset by additional exports from Canada, it provided no real additional incentive or opportunity for U.S. manufacturers and suppliers to participate more fully on a duty-free basis in the rapidly growing Canadian market.

By contrast, the trade agreement provides automotive manufacturers and parts suppliers on both sides of the border with the opportunity to market their products on both sides of the border without encumbering duties.

At the same time Canada is protected from any possibility of a wholesale flight of her less-developed automotive industry to the United States. It is this fear of loss of industry which often balks most efforts to lower tariff walls as you know. Thus we feel that the subject trade agreement is a far more comprehensive and significant development than the duty remission program which preceded it, and we feel further that the principles behind the trade agreement may have potential application to trade with other countries and in other products.

Briefly, the trade agreement permits manufacturers duty-free shipment between the United States and Canada of completed vehicles and of parts for use in the building of new vehicles. The agreement was entered into by Canada only after Canada received assurances from the Canadian vehicle manufacturers which were designed to pro-

tect and stimulate Canada's much smaller and less-developed manufacturing industries. The assurances are perfectly straightforward and simply say—as a matter of fact I think here is a good place, Mr. Chairman, to put into the record the letter of Chrysler to the Minister of Industry at Ottawa.

The CHAIRMAN. Without objection the letter will be made part of the record.

(The document referred to follows:)

CHRYSLER CANADA LTD.,
Windsor, Ontario, January 13, 1965.

HON. C. M. DEURY,
Minister of Industry,
Ottawa, Canada

DEAR MR. MINISTER: I am writing with respect to the agreement between the Governments of Canada and the United States concerning production and trade in automotive products.

Chrysler Canada, Ltd. welcomes the agreement and supports its objectives. In this regard, our company notes that the Governments of Canada and the United States have agreed " * * * that any expansion of trade can best be achieved through the reduction or elimination of tariff and all other barriers to trade operating to impede or distort the full and efficient development of each country's trade and industrial potential * * * ." In addition, we note that the Governments of Canada and the United States " * * * shall seek the early achievement of the following objectives:

(a) The creation of a broader market for automotive products within which the full benefits of specialization and large-scale production can be achieved;

(b) The liberalization of United States and Canadian automotive trade in respect of tariff barriers and other factors tending to impede it, with a view to enabling the industries of both countries to participate on a fair and equitable basis in the expanding total market of the two countries;

(c) The development of conditions in which market forces may operate effectively to attain the most economic pattern of investment, production, and trade."

Our company also notes that the right to import motor vehicles and original equipment parts into Canada under the agreement is available to motor manufacturers in Canada who meet the conditions stipulated in the Motor Vehicles Tariff Order 1965.

These conditions are, in brief, that vehicle manufacturers shall maintain in each model year their domestic production of motor vehicles in the same ratio to their domestic sales of motor vehicles and the same dollar value of Canadian value added in the production of motor vehicles in Canada, as in the period August 1, 1963, to July 31, 1964.

In addition to meeting these stipulated conditions and in order to contribute to meeting the objectives of the agreement, Chrysler Canada Ltd. undertakes:

1. To increase in each model year over the preceding model year, the dollar value of Canadian value added in the production of vehicles and original equipment parts by an amount equal to 60 percent of the growth in the market for automobiles sold by our company for consumption in Canada and by an amount equal to 50 percent of the growth in the market for the commercial vehicles specified in tariff item 950 sold by our company for consumption in Canada, it being understood that in the event of a decline in the market a decrease in such dollar value of Canadian value added in the above percentages is acceptable. For this purpose, growth or decline in the market shall be measured as the difference between the cost to our company of vehicles sold in Canada during the current model year and the cost to our company of vehicles sold in Canada during the preceding model year net of Federal sales taxes in both cases, and

2. To increase the dollar value of Canadian value added in the production of vehicles and original equipment parts over and above the amount that we achieved in the period August 1, 1963 to July 31, 1964 and that which we undertake to achieve in (1) above, by an amount of \$33 million during the period August 1, 1967 to July 31, 1968.

Chrysler Canada Ltd. also agrees to report to the Minister of Industry, every 3 months beginning April 1, 1965, such information as the Minister of Industry requires pertaining to progress achieved by our company, as well as plans to fulfill our obligations under this letter. In addition, Chrysler Canada Ltd. understands that the Government will conduct an audit each year with respect to the matters described in this letter.

I understand that before the end of model year 1968 we will need to discuss together the prospects for the Canadian automotive industry and our company's program.

Yours sincerely,

RON W. TODGHAM.

Mr. CURTIS. Would you identify that further?

Mr. KENDALL. I am going to do that. As you will read the letter, the manufacturers will continue to manufacture and to buy in Canada as high a percentage of the value of the vehicles sold by them in Canada as they did then in the base year plus an additional amount.

The additional amount of business to be placed in Canada by 1968 is equal to an annual level of \$260 million for the industry, and we understand that it has been divided among the manufacturers on a proportional basis with some consideration being given to differences in base year performance.

I might interpolate that I don't then know what is in the letters of other automobile manufacturers. Each of these letters was written entirely without consultation, except with the Canadian Government.

The \$260 million is approximately equal to one-half of Canada's balance-of-trade deficit in vehicles and parts with the United States in the 1964 model year, it will, therefore, leave the United States with a large favorable automotive trade balance in this with Canada—a favorable balance which we expect could approach last year's favorable balance with Canada of over half a billion dollars by 1968 due to growth of the combined Canadian and United States auto industry.

It is important to note that Canada could unilaterally achieve about the same effect on her 1966 U.S. trade balance simply by the restrictive but accepted practice of increasing the Canadian content requirement from 60 to 80 percent. Not only would such action restrict industrial growth on both sides of the border, but it would not have the long term sourcing flexibility inherent in the subject agreement, which virtually assures the United States that Canada will remain by far our biggest automotive customer, and that our plus trade balance in vehicles and parts with Canada will remain far in excess of that with any other country.

At this point, I would like, if I may have the permission, Mr. Chairman, to put into the record and have it available to the members of the committee, a document called attachment A which has been prepared by us and is entitled "Balance of Trade Between United States and Canada Chrysler Corp." It is illustrative for the model years 1963, 1964, and 1965 in billions of dollars the Chrysler United States to Chrysler Canada vehicles in dollars, the amount of supplies back and forth between Chrysler United States and Chrysler Canada and also Chrysler Canada to Chrysler United States, by both the Canadian vendors and U.S. vendors.

The CHAIRMAN. Without objection that will be included at this point.

Mr. KENDALL. Thank you, sir. We can return to that.
(The document referred to follows:)

Balance of trade between United States and Canada, Chrysler Corp.

(Millions of U.S. dollars)

	1963 model year	1964 model year	1965 model year
Chrysler-U.S. to Chrysler-Canada.....	34.4	51.2	82.5
Vehicles exported to Canada.....	1.6	2.5	18.5
Total.....	36.0	53.7	101.0
U.S. suppliers to Chrysler-Canada.....	16.9	23.5	37.6
Total export Canada.....	52.9	77.2	138.6
Chrysler-Canada to Chrysler-United States.....	6.5	15.9	36.2
Canadian vendors to the United States.....	1.6	6.8	14.5
Total exports.....	8.1	22.7	50.7
Balance.....	44.8	54.5	87.9
Memorandum item: Chrysler-Canada purchase from Canadian vendors.....	54.8	79.5	98.8

¹ Inflated because of 6,200 cars exported from United States to Canada during Canadian 5-week strike.

Chrysler Corp. increased its exports from Canada to the United States and elsewhere sufficiently to take full advantage of the duty remission program in the 1965 model year. Yet, the overall balance of trade between Canada and the United States continued to increase in favor of the United States. Even United States parts suppliers sold more to Canada as the duty remission plan went into effect than they did before.

Mr. KENDALL. There is no question in our judgment that the economies of high volume will reduce costs on both sides of the border. The total United States and Canadian market will be available to parts suppliers and manufacturers on both sides of the border. To U.S. suppliers and to the U.S. auto manufacturers the implementation of the trade agreement may be likened to gaining the effects of 3 years of market growth in addition to normal market growth over the next 3 years.

Putting it another way, that there may be individual manufacturers with low volume and high costs who will suffer as a result of the cold winds of competition, is, of course, true. Generally speaking, we would expect most of these to be on the Canadian side of the border rather than on the U.S. side. This is the reason why a third commitment was made to the Canadian Government that the Canadian subsidiaries of U.S. manufacturers would not reduce their dollar local content compared to the base year, but as the industry grows the dollar local content requirement would become less and less of a limitation on sourcing.

Finally a commitment was made to continue to assemble as high a proportion of vehicles compared to sales in Canada as the manufacturer did in the base year. This simply protects Canada from the possibility of losing assembly plant capacity to basic manufacturing capacity.

Since this committee is naturally interested in the effect of this agreement on the United States, and primarily on any possible ill effects the agreement might have on the U.S. parts manufacturers, we

thought that the accompanying chart would be of interest. It shows the 1965 model year sales of U.S. parts suppliers to Chrysler United States and Chrysler Canada along with the sales of Canadian parts suppliers to Chrysler Canada and Chrysler United States.

The most interesting aspects of this chart are the small size of the Canadian parts suppliers industry compared with the U.S. parts industry and the fact that the U.S. parts suppliers are exporting to Chrysler Canada more than double the amount that Canadian parts suppliers are exporting to the U.S. parent company. I would like to say here that we are completely in favor of the provision of this bill, turning to another subject, for protecting small industry and the worker. We believe that in any new law such as this one, protection is highly desirable. However, Chrysler is already taking full advantage of the Canadian duty remission program under the former plan, and we do not anticipate any further sourcing shift because of the agreement to or from Canadian parts suppliers as a result of this agreement. But we do believe that in any new law such as this any new protection is highly desirable.

Now in spite of our strong support of the trade agreement and the economic principles behind it and our firm support of an implementing bill enabling the United States to keep its part of the bargain, we want to express and reiterate the strong opposition to that portion of the bill which lays out the procedures to be followed in adjudicating the need for adjustment assistance. Specifically, we feel that it is not only inefficient but possibly dangerous to take the factual investigation in adjustment assistance cases—at least so far as confidential business data are concerned—out of the hands of the Tariff Commission, a division of the legislative branch of government, and to place it in the executive branch, specifically in the hands of the President. I am sure that upon careful consideration, thoughtful people will agree that this particular provision which vests in the President—already the most powerful constitutional officer in the world—and the most responsible—a subpoena power, is just not necessary.

In the first place, through the Tariff Commission, whose members he appoints, he has this power of investigation.

Second, it merely serves to add to the burdens of his already overburdened office and problems.

And I would think his advisers would not welcome this.

Third, it would create a harmful precedent which we can ill afford in as good a piece of legislation as this. Certainly there is no Government body better equipped than the Tariff Commission—an arm of the Congress—to investigate facts and present to the President an expert evaluation of the facts while protecting confidential business data.

I understand perfectly well from my experience in government that there is need for direct and prompt action but this is a very different problem, Mr. Chairman, from the investigation of far-off Swedish hardboard or Swiss watches and things of that sort and all of the things which go into it.

Here we have a country which is along our borders, whose background is very simple as compared to our own, readily understood, and it could be done with considerable dispatch in our judgment.

We believe that subsections 302 J and K of the bill which would give the President or his delegate the power to compel the submission

of confidential business data and to make that data public regardless of the harm it might cause to the submitting business organization, should be removed from the bill. That power to deal with confidential business data is now held by the Tariff Commission and should remain there.

I only read this morning the Tariff Commission report and I could not agree more with what they say on page 61 of the report which has been given to you.

In operation since 1916, the present Tariff Commission has built up a set of regulations which are workable, have stood the test of time, and protect the confidentiality of the information it receives under its subpoena powers, and thereby assures the full cooperation of all sides affected. We believe it would be far better that the President be assured ready access to the necessary information he will need to decide adjustment assistance cases, and at the same time guaranteeing privacy of confidential information subpoenaed in such cases by leaving with the Tariff Commission at least the investigative function under the adjustment assistance portion of this bill, where confidential business data are required.

In conclusion, we feel that this agreement, and the results under this agreement, may well provide precisely that new approach that is necessary to the resolution of longstanding problems in international trade. This approach provides for recognition of the inherently differing needs of different nations, and yet the means of meeting these needs are economically stimulating rather than debilitating; they reduce costs rather than increase them, they reward rather than penalize.

The historical relationship is important also. We share the common benefit of living on the Great Lakes—the world's greatest single fresh water system—and a superb means of low-cost transportation into the industrial heart of the continent. I will not rework the old theme about the trust between Canadians and Americans that is symbolized by 3,000 miles of unfortified and unguarded border between our countries. But I would remind you that no suggestion has even been made that we institute a good neighbor policy for Canada and the United States. Between good neighbors there is no need for any such policy.

But good neighbors that we are, there is the possibility that we have congratulated ourselves so long on our unguarded border and the great volume of trade already flowing between the two countries that we may have become somewhat complacent and insensitive to the need for change.

We at Chrysler have long believed that the day would come when good business judgment in both countries would bring about an end to some of the wasteful duplication of effort both in production and distribution that now exist. It is little more than a year ago that Lynn Townsend, the president of Chrysler, strongly stated this corporation's view in this regard. In a speech designed to enunciate this thinking he pointed out that all of us are going to be forced by the rules of economic logic and plain good sense to recognize the advantages of treating our two countries as one natural market of vast size and potential—

unbroken by artificial barriers. And we have long believed that sooner or later the businessmen of both countries would realine their operations so as to gain for the people of Canada and the people of the United States more of the benefits of mass production and mass distribution, and to put our entire continent in a better position to establish a strong trading relationship with the other large markets of the world.

Someone has said that nothing is so powerful as an idea whose time has come. We now have the great opportunity to take this idea and make it work.

Chrysler Corp. strongly supports the historic trade agreement already reached by the United States and Canadian Governments and we urge prompt passage of the implementing legislation, H.R. 6960, amended to include the Tariff Commission as discussed.

Before closing, Mr. Chairman, I would like to pay particular respect to the people at the State Department and the Department of Labor and the Department of Commerce who have been, I think, quite imaginative in trying to work this thing out so that there would be protection and at the same time so that we could take advantage of the benefits of expanding trade with the right country, in the right industry, at the right time.

Again I appreciate very much your kindness.

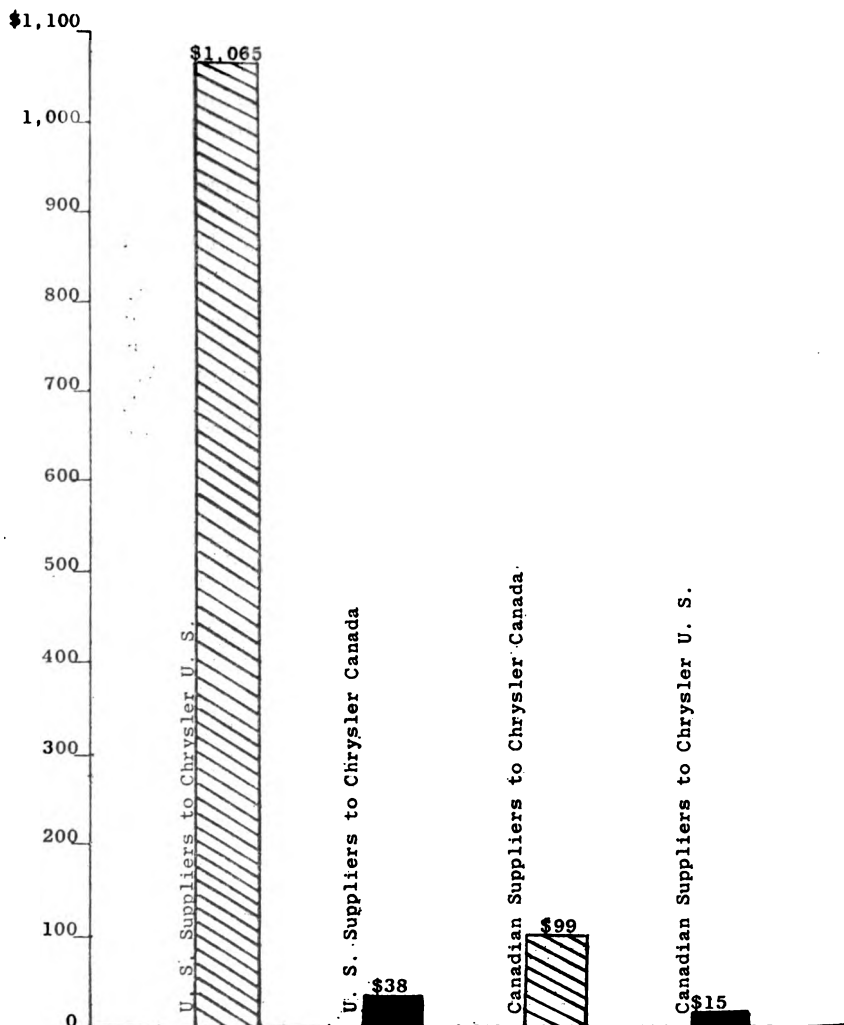
Thank you.

The CHAIRMAN. Without objection the table accompanying your statement will be included at this point in the record.

Mr. KENDALL. Thank you, sir.

(The document referred to follows:)

SUMMARY OF SUPPLIER FURNISHED PARTS
CHRYSLER U.S. & CHRYSLER CANADA
1965 MODEL YEAR
(Dollars in U. S. Millions)



The CHAIRMAN. Any questions of Mr. Kendall?

Mr. BYRNES?

Mr. BYRNES. Mr. Kendall, I would like you to add to the welcome given to you by the chairman on your return to the committee.

Mr. KENDALL. Thank you.

Mr. BYRNES. I probably should have asked the question of the Government witnesses yesterday but maybe you could be of some help.

A good share of this program is predicated on what Canada could do unilaterally. What I want to find out is what some of these other

countries can do unilaterally, recognizing that most of them are members of the General Agreement on Tariff and Trade?

You point out, and I think your statement is very helpful in pointing out, the history of the use of the local content requirement as a growing device by the developing countries or the underdeveloped countries to restrict imports into their country and develop a local industry or protection.

Mr. KENDALL. And develop local requirements.

Mr. BYRNES. Yes; a device to do that.

Mr. KENDALL. Yes.

Mr. BYRNES. You point out that some of these countries are even moving to a higher content requirement. Can they do that under the General Agreement on Tariff and Trades if they are parties to the agreement without being in violation of the general agreement and without giving compensation?

Mr. KENDALL. Yes. As I understand it, Mr. Brynes, within the limitations of their agreement they can, and in our judgment this increase of local content which they could do, would seriously hamper the type of thing which I have just been talking about.

Mr. BYRNES. I understand that. That is the basic justification as I understand it, for this agreement. This is working out a much more satisfactory solution than leaving Canada to its own devices which might give then encouragement to move to more restrictive devices.

Mr. KENDALL. That is right. They could have the same sort of restrictive matters which we get in Europe.

Mr. BYRNES. I have been under the impression that those conditions which were in existence at the time that they joined the GATT and became participating members, was accepted as part of their tariff structure.

Mr. KENDALL. That is right.

Mr. BYRNES. I was also under the impression that adding new restrictions was a different matter and that the addition of more restrictive requirements would be in violation of the GATT, for which, to be sure, they might get a waiver but they might have to give compensation for doing so. It was still in violation of GATT. I am wondering if you could comment of this.

Mr. KENDALL. I can't at length, Mr. Byrnes, but it is my understanding that that is not true and that it is not a violation.

Mr. BYRNES. Mr. Chairman, I would like at this time to request that the State Department and the Commerce Department advise us if they would as to how in this instance Canada could adopt a more restrictive trade policy with respect to automobiles and not be in violation of GATT.

The CHAIRMAN. We will ask them to.

(The following material was received by the committee:)

SPECIAL ASSISTANT TO THE SECRETARY OF STATE,
Washington, May 6, 1965.

Mr. LEO IRWIN,
Chief Counsel, Ways and Means Committee,
House of Representatives, Longworth Building.

DEAR MR. IRWIN: During the recent hearings on H.R. 6960 Mr. Byrnes asked for a statement as to whether Canada could increase the Canadian content requirement in its tariff provisions concerning automotive products consistent

with the General Agreement on Tariffs and Trade (GATT)? A reply to his question is enclosed.

Sincerely,

PHILANDER P. CLAXTON, Jr.

Enclosure.

Question. Could Canada increase the Canadian content requirement in its tariff provisions concerning automotive products consistent with the General Agreement on Tariffs and Trade (GATT)?

Answer. There are 12 permanent items in the Canadian tariff covering automotive products, other than tires. In past GATT negotiations, the United States has obtained a tariff concession on the rates of duty applicable to each item and these concessions are therefore bound by Canada in its schedule to the GATT.

Three of these items contain Canadian content requirements, items 438c, 438d, and 438e. Item 438c covers a large variety of automotive components for use in the manufacture or repair of automotive vehicles. In general, item 438c provides that such automotive components shall enter free of duty if they are of a class or kind not made in Canada, if they are for use as original equipment by a manufacturer of automotive vehicles, and if, of the total factory cost of the production of such vehicles, that portion which is incurred in the British Commonwealth does not fall below a stipulated percentage of either 40, 50, or 60 percent depending upon whether the total factory output of vehicles during the year in which importation is sought is under 10,000, between 10,000 and 20,000, or over 20,000.

Items 438d and 438e cover automotive components for the manufacture and repair of trucks, buses, firefighting vehicles, ambulances, and the like. They provide that such automotive components shall enter free of duty if they are of a class or kind not made in Canada, if they are for use as original equipment for trucks, buses, firefighting vehicles, ambulances, and the like, by a manufacturer of automotive vehicles, and if, of the total factory cost of the production of such vehicles, that portion which is incurred in the British Commonwealth does not fall below 40 percent during the year in which importation is sought.

All of these Canadian content requirements are also the subject of tariff concessions obtained by the United States in GATT negotiations and are therefore bound by Canada in its schedules to the GATT.

Accordingly, in order to be consistent with the GATT, Canada could increase the Canadian content requirement in any of the three items described above only by following the procedures prescribed by article XXVIII of the GATT. This article provides in general that a country may modify or withdraw a tariff concession bound in the GATT only at a certain time once every 3 years, or otherwise only by obtaining a finding of special circumstances from the contracting parties to the GATT. Under either procedure, the country is obligated to enter into negotiations with the other countries affected by the modification or withdrawal of the tariff concession and to offer new tariff concessions in compensation for such action. If the offers of compensatory tariff concessions are accepted, the country is free to make the modification or withdrawal. If the offers are not accepted, the country is still free to take such action, but the countries affected are then immediately entitled to withdraw tariff concessions granted to the other country which cover an amount of trade substantially equivalent to that covered by the tariff concession being modified or withdrawn.

Mr. BYRNES. That is all.

The CHAIRMAN. Any further questions?

Mr. CURTIS?

Mr. CURTIS. I am glad to see you here again, too.

Mr. KENDALL. Thank you, Mr. Curtis.

Mr. CURTIS. I think you have given a very helpful statement.

I know you have listened to my interrogation of the previous witness. I am concerned whether you feel that this bilateral approach—this dealing in a single industry—is not a departure from our basic trade policies.

Would you comment on that, please?

Mr. KENDALL. Yes. I had sort of anticipated even before, as you saw in the statement. Furthermore, Mr. Curtis, I think I am correct in saying that the multilateral agreements have never been of assistance to the automobile industry. However, what we are talking about here, as I tried to make clear in my statement, is taking advantage of an industry which we feel is peculiarly adapted to this with a country that we feel is peculiarly adapted, and at the right time.

Now as to any other industry, I do not know, obviously. It could be a pattern which with slow and careful procedures and protections, could be developed and slowly do away with the type of problem that we have bilaterally in given areas of the world.

That is one of the reasons we think it is very interesting and very significant.

Mr. CURTIS. I do not want to make invidious comparisons but I wish administration statements on this proposed agreement had been as imaginative as yours have been, because I, too, can see that this could lead to a very bright future in solving many problems, but I always worry about people who start by denying that this is a great innovation. It is.

Now you can defend innovation and you have presented it this way and one can explore and understand it as such.

Let me ask one other thing to complete the record, because your presentation here of the relationship of other countries to their automotive industries has thrown new light on this agreement.

Have the American companies been the ones generally that have been able to go into these developing countries, and in effect, through their investments, help these countries to actually develop industry there?

Mr. KENDALL. Yes; all three or perhaps four of the major American industries, have.

Mr. CURTIS. Is that possibly the reason why there have been no complaints about the changing of the percentage content requirements from time to time?

Mr. KENDALL. You mean the increasing content requirement?

Mr. CURTIS. Yes. I think it is a violation of GATT and I do not think there is any question but why the complaints never come up. This is not said in criticism, it is said to understand if it has been the American companies' initiative that has led them to establish domestic companies to build up an automotive industry, that is easy to understand.

Mr. KENDALL. I understand. What you do, you get—for instance, Mexico is an interesting one they got. We are in partnership with the Ascaraga people in Mexico and this is true in many countries in the world where you go into partnership with them and you have a portion of the control of the company, perhaps not a majority control, and you have Mexicans or Argentines or Peruvians running the country and you take advantage of two things in doing it.

Why there have been no complaints, I do not know, certainly we have not.

Mr. CURTIS. Now just projecting our thoughts further to consider a complete integration between the United States and Canada, would you contemplate that such integration would ultimately result in the elimination of the content requirement?

Mr. KENDALL. It could be.

Mr. CURTIS. I had not thought, incidentally, in regard to this problem on parts and replacement parts that, of course, by removing the barriers on both sides, the marketplace discipline could be injected to decide who expands and who contracts production. But it appears there is a floor put under the Canadian parts people but no floor under the Americans.

Let me ask a technical question. Is it true that most parts companies are also replacement parts companies?

Mr. KENDALL. I do not know that most of them are, I just do not know. We will get that for you.

Mr. CURTIS. They will be testifying, so I can get the information from them. I am trying to understand this better because if this is so it is hard to consider their economic future by just thinking of what happens to them as parts manufacturers exclusively and not also as replacement parts makers.

Do you imagine that Canada at the time of the 1968 review, would be willing to accept a fuller competition in the automotive market? What would your projection be?

Mr. KENDALL. I have been spending most of my life trying to look not too far into the future, Congressman, but I do not think this is a bridge which I can cross, but I would answer the question this way: If this works out, this agreement, as I think it may, as we hope it will over the next 3 years, I would then think that there would be enough advantage both to the Canadians and to us to try and have it proceed from there on with as much appeal as it does here.

Mr. CURTIS. It has been said that if other countries wanted to avail themselves of a similar kind of agreement, that this would be within contemplation. Yet you have pointed out that this can cause a special relationship between Canada and the United States.

Do you see, from a practical standpoint, that some other country might want to avail itself of a similar arrangement?

Mr. KENDALL. I was talking of 1965 when I said that and I can conceive of the right time coming about with another country, for instance, Mexico. I know some of our people are keeping that very much in mind.

Mr. KEOGH. Mr. Chairman, I would not want the record to remain in such a state that only those members who asked questions were pleased with the former Secretary. We all are.

Mr. KENDALL. Thank you, sir.

Mr. SCHNEEBELI. Mr. Kendall, have any preliminary discussions been held with Mexico with regard to this subject?

Mr. KENDALL. No.

Mr. SCHNEEBELI. We had discussion earlier this morning about a common market of the Americas; we have two ways to go, both north and south. Do you anticipate if this works out in the next 3 years, that we would include Mexico in our orbit of thinking of common market?

Mr. KENDALL. Well, it is a little difficult to answer it categorically, but I am very sure that if the Mexicans and our partners in industry in Mexico proceed as the Canadians have been proceeding and if the Mexican Government takes the rather broad view which the Canadian Government has been taking over the period, unilaterally, that such

an approach could be made some day in the future but it would require three or four things to happen at once, Congressman Schneebeli.

Mr. SCHNEEBELI. Isn't it more to their advantage to have this implemented than it is to our advantage, in the short run, at least?

Mr. KENDALL. Perhaps in the short run.

Mr. SCHNEEBELI. In the long run it is good for us to have strong nations and friendly nations as neighbors.

Mr. KENDALL. Yes, but you are looking at Mexico as of today. Five, ten, or fifteen years from now that might open up a great market. One of the things that this does, Congressman, is to open up quite a market for the United States.

Mr. SCHNEEBELI. I realize that. At the present time, do any of the large American automobile companies have any major investments in Mexico?

Mr. KENDALL. Yes, they do.

Mr. SCHNEEBELI. Thank you.

The CHAIRMAN. Any further questions?

Mr. Betts?

Mr. BETTS. Mr. Kendall, we are glad to see you back here.

Mr. KENDALL. Congressman, it is very nice to be here.

Mr. BETTS. What I want to ask you, and I don't want to appear unfriendly, I am honestly concerned about the effect on small business.

Mr. KENDALL. Yes, so are we.

Mr. BETTS. You said here that there may be individual manufacturers who might possibly suffer. Do you have any way of identifying them?

Mr. KENDALL. That statement was made in no context of any single company, but rather that entirely apart from this proposed legislation and its results some companies might not continue to do business with us. We do a great deal of examination of our sources—in the first place you must understand, and I am sure you do, that we are constantly thinking about buying or making. Secondly, we are constantly thinking about getting the very best price we can.

Thirdly, the purchasing people at Chrysler are just as careful as they possibly can be about the selection we might get. Now I would like to say something in connection with Canada. We have made some changes over the years but we at the moment, aside from the problems of quality or things of that sort we have no intention of making any changes with regard to the Canadian sources on either side of the border.

Mr. BETTS. The Chrysler Ltd., is that a wholly owned Canadian company?

Mr. KENDALL. Yes.

Mr. BETTS. Do you make your parts in the United States?

Mr. KENDALL. Yes.

Mr. BETTS. And then you sell them to Chrysler Ltd. in Canada?

Mr. KENDALL. Some of them.

Mr. BETTS. Is that true of the other industries?

Mr. KENDALL. I assume that it is.

Mr. BETTS. So where does this small parts manufacturer fit into the picture?

Mr. KENDALL. We also buy, we source from small and large outside suppliers, Mr. Betts.

Mr. BETTS. Do you see anything in this agreement or in legislation that is proposed here that would be harmful to the independent manufacturers and parts?

Mr. KENDALL. No, we do not.

Mr. BETTS. Then they are not the manufacturers you had in mind here that might be injured?

Mr. KENDALL. No. I was talking entirely outside of the problems of this legislation.

Mr. BETTS. Well, I want to get that clear because it just looked to me as the testimony shapes up here you anticipate someone is going to be injured. Ford, Chrysler, General Motors, appear here and say they are going to be benefited by it. So it just sort of looks like it might be helpful to the Big Three and harmful to everybody else.

Would you comment on that?

Mr. KENDALL. Yes. What is helpful to our suppliers is helpful either side of the border and is helpful to us because it is all a part of an economy. We do not anticipate a change of our own sources from independent suppliers on either side of the border, but particularly on the U.S. side.

It is not anticipated as a result of this agreement.

Mr. BETTS. Your answer to that would be you see nothing in this agreement or supplemental legislation which would change in any way in the future?

Mr. KENDALL. Right. As a matter of fact, Mr. Betts, what I tried to say in the prepared statement was that during the remission duty program which preceded this proposed trade agreement we actually accomplished all of the sourcing changes, Canada-United States, that we had expected to make. We don't see any coming in the future as a result of this agreement.

Mr. BETTS. That leaves me interested in who you had reference to as the individual manufacturers who might be hurt.

Mr. KENDALL. We had one in Canada—I will not name them—a trim outfit in Canada.

Mr. BETTS. Any in the United States?

Mr. KENDALL. Yes, 2 years ago, 3 years ago, we made a change and it had nothing to do with the duty problem. We changed our sourcing from the United States to Canada of one company and I reiterate that the duty or the remission, the fact of a remission program had nothing to do with that at all; we just got what we wanted.

Mr. BETTS. I have received letters from companies in Michigan and Ohio, and I just want to be able to assure them their future is not in jeopardy if this bill passes. You say in your opinion there is nothing in this bill which will hurt them, even though there is adjustment assistance provisions in the bill.

Mr. KENDALL. So far as our program is concerned, I can only speak for us.

Mrs. GRIFFITHS. Mr. Chairman, may I ask a question?

Mr. KENDALL. Do you have that attachment A business? I would like to refer you to attachment A. I think you have got one there, balance of trade between the United States and Canada.

Mr. BETTS. Yes, sir.

Mr. KENDALL. You can see there really what I am talking about, model year 1963 in millions of dollars, U.S. suppliers to Chrysler Canada. This is the outside supplier in his shipments sales to Chrysler

Canada, that is our subsidiary in Canada. In 1963 you will note it was \$16.9 million. In 1964 model year \$23.5 million. And this year well over double \$37.6 million, and in Canadian vendors to the United States, \$1.6 million in 1963, \$6.8 million in 1964, and \$14.5 million in 1965.

I think that that is indicative of an answer to your question.

Mr. BETTS. Thank you very much.

Mrs. GRIFFITHS. Mr. Chairman.

The CHAIRMAN. Mrs. Griffiths.

Mrs. GRIFFITHS. Mr. Kendall, if this deal had been made by Canada with the European Common Market, Ford, Chrysler, and General Motors would still have had a chance to have gotten into it, would they not?

Mr. KENDALL. Yes.

Mrs. GRIFFITHS. So that in reality this would have knocked out American suppliers, would it not?

Mr. KENDALL. Yes.

Mrs. GRIFFITHS. So that this is a better field for American suppliers than a deal with the Common Market would have been?

Mr. KENDALL. Yes.

Mrs. GRIFFITHS. In addition to that in the fallout from the sale of these cars and parts would not part of that fallout be that Canada will buy cotton from the United States, for instance for seat covers?

Mr. KENDALL. I assume they would, provided they could get it, surely.

Mrs. GRIFFITHS. If there are some people who are hurt, there would be many others who are helped?

Mr. KENDALL. That is right; and in further answer to that, we feel very strongly that this will improve the strength, it has the potential of improving the strength, barring other things, of the Canadian industry which will be a customer of all America and vice versa. It will give us a lot of new customers.

Mrs. GRIFFITHS. In addition to that you are not going to stop selling cars in the United States and the demand for those cars is going up to such an extent that you are already being compelled and most suppliers are being compelled to increase their capacity?

Mr. KENDALL. That is right.

Mrs. GRIFFITHS. Is that not true?

Mr. KENDALL. Yes.

Mrs. GRIFFITHS. So if there is ever a time to make the switchover, this is the time?

Mr. KENDALL. Yes, Mrs. Griffiths. As you know, we have embarked upon a program, a description of which is in a registration statement filed with the SEC. This outlines with some care our expectation of spending a half billion dollars a year for the next 3 years in increasing our productive capacity all over the world, but 75 percent of that is in the United States where we will get an increase of some 30-percent floor space.

Mrs. GRIFFITHS. Thank you very much. I enjoyed your testimony greatly and I really think you should send a copy of Mr. Townsend's speech to this committee.

Mr. KENDALL. I certainly shall.

The CHAIRMAN. Are there any more questions?

If not, thank you, Mr. Kendall. We appreciate your coming.

Mr. KENDALL. I would like the committee to put into the record, because we feel very strongly about it, a brief which has been prepared by Mr. Stewart with regard to the confidentiality of it.

The CHAIRMAN. Without objection that will be included in the record.

Mr. KENDALL. Thank you.

(The document referred to follows:)

BRIEF IN BEHALF OF THE CHRYSLER CORP. IN OPPOSITION TO SECTION 302 (j) AND (k) OF H.R. 6960

STATEMENT OF POSITION

The Chrysler Corp. supports the enactment of H.R. 6960. It is, however, opposed to two particular subparagraphs of the bill, section 302 (j) and (k). Those subsections would give the President the power by subpoena to compel a U.S. automobile manufacturer to produce "books, papers, or other documents relating to any matter" pertaining to an investigation by the President to determine if adjustment assistance should be provided a firm or group of workers. They would permit the President to make public confidential business information of an automobile company over the objections of the company even where the President agrees that the disclosure would harm the company, if the President determines that the disclosure "is required in the interest of the public."

GROUND FOR OPPOSITION

The cited subparagraphs are opposed for the following reasons:

1. The grant of power to the President to compel production and make disclosure of confidential business information is unprecedented in tariff and trade legislation.
2. This grant to the President is unnecessary because of the right given to him by existing law to request the Tariff Commission to investigate and report to him under the Commission's safeguards for confidential business data questions of fact on which the President needs to be informed in order to exercise his discretion in tariff adjustment and related adjustment assistance matters.
3. This grant of power sought by the Executive is of doubtful constitutionality and probably violates the fourth amendment to the Constitution.

DISCUSSION

1. The grant of power to the President to compel production and make disclosure of confidential business information is unprecedented in tariff and trade legislation

In the long history of foreign trade legislation delegating power to the President to adjust duties, Congress has never granted the President the power to compel private persons and corporations to produce confidential business information, trade secrets, and the like, and to make such information public.

For 100 years, 1815-1915, the President exercised tariff adjustment authority under a variety of statutes without the benefit of an expert body to assist him by conducting investigations and drawing up a report of the facts germane to the presidential power. As described by the Supreme Court in *Norwegian Nitrogen Products Co. v. United States*, 288 U.S. 294, 309 (1933),

"In the fulfillment of his duties, the President consulted whatever sources of information appeared to be appropriate, and when satisfied as to the facts, made proclamation of his action." (288 U.S. at 309.)

As stated by the Attorney General's Committee on Administrative Procedure in its monumental 1941 report on the administrative procedure in Government agencies,

"The U.S. Tariff Commission was established in 1916 as the result of a widespread demand to 'take the tariff out of politics' by providing a more intelligent and scientific method for obtaining information relating to the tariff."

The basic function of the Commission has been unchanged throughout its history: its primary purpose as stated in section 332 of the Tariff Act of 1930 is:

"to investigate the operation of customs law, including * * * their effect upon the industries and labor of the country."¹

Having inquired into the Commission's procedures in conducting its investigations, the Attorney General's Committee reported that,

"Domestic costs are usually obtained by an actual examination by the accountant and his colleagues of the operations of the plants of the principal domestic manufacturers, and of their books and records. The Commission has had no difficulties in obtaining access to any records which it desired in this connection. Since competing interests are usually called upon for information or data, the Commission has long followed the practice of withholding from disclosure individual business data considered to be confidential in nature. If the promise to hold the information confidential is not a sufficient inducement to the manufacturer to make available his records, reference to the Commission's authority to subpoena witnesses and documents has invariably melted his resistance." (S. Doc. 10, 77th Cong. 1941), p. 14.)

The Supreme Court referred to this procedure of the Commission in the *Norwegian Nitrogen Products Co.* case, supra :

"From the beginning there has been an administrative policy to treat the costs or investments of identified producers as akin to a trade secret, with the result that disclosure, even if not strictly within the prohibition of the statute, was forbidden in the view of the Commission by persuasive considerations of fair dealing and expediency. Congress did not then protest and indeed never has protested, though Congress was the very body for whose benefit the investigation had been made and the reports transmitted * * * .

"* * * . Consistently through all its hearings the Commission has acted upon the principle that the cost of production will not be made known to competitors if the producers are so few that there can be no disclosure of the cost without disclosing the identity of those producing at that cost." (288 U.S. at 311.)

The Court described the various types of reports issued by the Tariff Commission upon its investigations and stated, "What is more significant than any variation in the reports is a strain of uniformity that runs through all alike. Not in one of them is there a disclosure of the individual data brought together by the Commission through the work of its investigators." (288 U.S. at 312.) The Court found that the Commission's long-continued administrative practice, acquiesced in by the Congress, had acquired the force and effect of law.

This practice, sanctioned not only by congressional acquiescence, is also fortified by the mandate of other congressional enactments. The Tariff Commission referred to its practice regarding confidential business data in a communication to the Constitutional Rights Subcommittee of the U.S. Senate in July 1958. It listed the following as among the types of information and records in the custody of the Commission which are not made available to the public or the press :²

"Information of a confidential nature affecting private business operations. The Commission is prohibited by title 18, United States Code, section 1905 as well as by the Federal Reports Act (5 U.S.C. 139 et seq.) from revealing information concerning the confidential business operations of firms or individuals who may supply such data to the Commission or which has been supplied the Commission by other Federal agencies."

The Commission's practice is based upon practical necessity, and the Supreme Court recognized this in declaring in the *Norwegian Nitrogen Products* case that,

"There is indeed a possibility that the work of such a body would be seriously hampered if producers were not made to feel that information which in the thought of many is ranked as confidential would be withheld from prying eyes. * * * Businessmen may exaggerate the importance of secrecy in matters of this kind. Their sensitiveness is to be reckoned with, whether it be reasonable or not." (288 U.S. at 322)

Many Federal statutes confer authority on administrative agencies or executive officials to subpoena information required in the administration of a statute.³

¹ S. Doc. 10, 77th Cong. (1941), Monograph of the Attorney General's Committee on Administrative Procedure, "Administrative Procedure in Government Agencies, pt. 14: Administration of the Customs Laws," p. 3.

² Committee print, Subcommittee on Constitutional Rights, Committee on the Judiciary, U.S. Senate, 86th Cong. (1960), p. 602.

³ See, for example, the following provisions of the United States Code: 5-118k(d), 5-780, 5-1005(c), 7-499m(b), 7-511n, 7-1803(a), 8-1225, 8-1446, 12-1464(d)(1), 15-46(a), 15-49, 15-77dd, 15-77uuu(a), 15-78u(b), 15-79r(c), 15-687a(d), 15-717m(c), 15-1268, 16-825, 19-1333(a), 21-198a, 22-1623(c), 25-70(q), 26-7456, 29-181(l), 29-208, 30-475(i), 33-508, 33-927, 42-405(d), 42-1872a(f)(1), 43-1398, 45-157, 45-361, 45-362, 45-35, 45-40, 46-1124, 47-409(e), 49-12(l), 49-305(d), 49-1484, 50-792(c), 50-819, 50 App. 1152(3), 50 App. 2001, 50 App. 2026.

Some statutes specifically refer to the possibility of public disclosure. Most such provisions prohibit the disclosure of confidential business information.⁴

Only three Federal statutes have been found which authorize the disclosure of confidential business information notwithstanding the adverse effect on the person or corporation compelled to submit the information. Two of these are based squarely upon the national security interest [50 U.S.C. App. 2026(c)—Export Control Act; and 50 U.S.C. App. 2155(e)—Defense Production Act]. The third, a provision of the Federal Aviation Act (49 U.S.C. 1504) pertains to a regulated industry. Public utilities and other industries affected with such a degree of public interest that Federal regulation has been adopted are subject to a different standard of disclosure "in the public interest" than private nonregulated industries. *Federal Trade Commission v. American Tobacco Co.* (264 U.S. 298 (1924)); *Fleming v. Montgomery Ward & Co.* (114 F. 2d 384 (7th Cir., 1940), cert. denied, 311 U.S. 690).

The Congress has properly been quite reluctant to grant the President or any administrative official the power to publish confidential business data. The Tariff Commission's 50-year history of competence in protecting such data from disclosure while conducting its factual investigations in aid of the President and the Congress shows that there is no necessity now for a departure from this policy of forbearance.

2. This grant to the President is unnecessary because of the right given to him by existing law to request the Tariff Commission to investigate and report to him under the Commission's safeguards for confidential business data questions of fact on which the President needs to be informed in order to exercise his discretion in tariff adjustment and related adjustment assistance matters.

The President has the right at any time to request the Tariff Commission to make a factual investigation of a particular matter and to report to him within the time limit which he specifies (sec. 332(g) Tariff Act of 1930). Though the President has not heretofore availed himself of this right, such investigations have frequently been requested by the Committee on Ways and Means of the House of Representatives and the Finance Committee of the Senate, as well as by the two Houses of Congress. In all, 45 investigations have been conducted by the Commission under section 332(g). In 29 of them, public hearings were held.

Investigations under section 332(g) of the Tariff Act of 1930 may be for any purpose determined by the President. He is under no limitations whatever in defining the scope of the inquiry. There are no limitations other than the practical one of the time necessarily required to complete an investigation in the time limit which the President may impose on the Tariff Commission. The statute simply commands the Commission to "make such investigations and reports as may be requested by the President."

In its investigations under section 332(g), the Commission's rule concerning confidential business data (19 CFR 201.6) applies. The Commission's rule is salutary in its operation and is therefore quoted in full:⁵

"(a) *Definition.* Confidential business data consist of any information which concerns or relates to the trade secrets, processes, operations, style of work, or apparatus, or to the identity, confidential statistical data, amount or source of any income, profits, losses, or expenditures of any person, firm, partnership, corporation or association, the disclosure of which is not authorized by law or by the party furnishing such information.

"(b) *Identification of information submitted in confidence.* Business data which it is desired shall be treated as confidential shall be submitted on separate sheets each clearly marked at the top "Business Confidential." When submitted at public hearings such business data shall be offered as a confidential exhibit with a brief description of the nature of the information.

"(c) *Acceptance of information in confidence.* The Commission may refuse to accept in confidence any information which it determines is not entitled to

⁴ See, for example, the following provisions of the United States Code: 5-139b, 5-1002, 7-12, 7-472, 7-507, 7-608d(2), 7-955, 7-1373(c), 7-1621, 12-1095, 13-8, 13-9, 15-77uuu(b), 15-176a, 18-1905, 35-122, 42-1306(a), 42-1857d(1)(1), 42-2000g-2, 43-1398.

⁵ The Attorney General's Committee learned what every business organization involved in a Commission investigation has learned: The Commission, although authorized to compel the production of books and records relating to any matter pertaining to an investigation which it conducts (sec. 333 of the Tariff Act of 1930), has never actually been required to issue a subpoena for its own purposes. Manufacturers, assured by the Commission's rule and practice concerning confidentiality, have cooperated in the submission of data.

confidential treatment. In the event of such refusal, the person submitting such information will be notified thereof with a statement of the reasons and (if the information was submitted voluntarily) will be permitted to withdraw its tender."

In 10 of the 29 investigations under section 332(g) in which public hearings were held, confidential treatment for business data was requested and granted by the Commission. These requests included such varied items as prices, geographical cost disadvantages, transportation costs, the cost of foreign product, domestic cost and sales data, stock owned by witnesses in companies involved in an investigation, advertising and selling expenses, and profit and loss statements.

The Commission's practice regarding confidential data extends not only to section 332(g) investigations, but to its other kinds of investigations as well. The reports made with greatest frequency in recent years have been under the escape clause of the trade agreements legislation. Prior to the repeal of the escape clause by section 301 of the Trade Expansion Act of 1962, the Tariff Commission had completed 113 investigations. In many, if not the majority of these, certain portions of the report made by the Commission to the President were not made public because they contained information that would have revealed the operations of individual business concerns. Under the adjustment assistance provision of the Trade Expansion Act of 1962, the Commission has completed 20 investigations to which it has extended its practice concerning confidential treatment of business secrets.

The Commission's practice of granting confidential treatment to business data has not impaired its ability to conduct or complete its investigations, or to report its findings and recommendations to the President. Nor has the President been hindered in any way in acting upon the Commission's reports.

The Commission's practice in this respect is to issue a public report from which there has been deleted the references to confidential business data. These data are, however, included in the report sent to the President. With a complete report before him, the President is enabled to make his determination in the knowledge of the full facts developed by the Commission.

A typical example is the Commission's most recent report released on April 14, 1965, concerning stainless steel table flatware. The report released to the public called attention to the fact that portions of the report submitted to the President were not made public in order to protect the confidentiality of business information concerning the operations of individual concerns.

The Commission's report under section 332(g) as well as its reports in the escape clause and adjustment assistance cases are referred to the Committee on Ways and Means and the Senate Finance Committees of the Congress. During the long history of the Commission's practice regarding confidential business data, no complaint has ever been made by the President, the public, or the Congress concerning the deletion of confidential data from the public report. Further, it has never been suggested from any public or private source that the President or the Congress were disabled in the performance of their duties in connection with these investigations or that the public interest was in any other way compromised by the Commission's procedure.

The situation presented can be summarized as follows: The Tariff Commission was established expressly for the purpose of making scientific investigations of facts pertaining to the effect of foreign trade on business firms and labor in the United States. It has discharged this mission with a high degree of competence during its 50-year history. It has developed procedures which adequately protect the confidentiality of business information and trade secrets. Its rules and procedure have inspired confidence within the business community resulting in such a high degree of cooperation that the Commission has not once been forced to resort to the use of its subpoena power. The President has immediate access to the Commission under existing law so that there can be developed for him by an expert body under well-established procedures the facts pertaining to any matter which the President deems pertinent to a petition for adjustment assistance under H.R. 6960.

It would not only be a clear departure from the traditions observed by the Congress in regard to confidential business data to enact section 302 (j) and (k) of H.R. 6960; it would also be a wholly unnecessary act in view of the availability and competence of the Tariff Commission.

3. This grant of power sought by the executive is of doubtful constitutionality and probably violates the fourth amendment to the Constitution.

The fourth amendment to the Constitution states simply that, "The right of the people to be secure in their persons, houses, papers, and effects, against unreasonable searches and seizures, shall not be violated, * * *."

This amendment is applicable to private business corporations. *Silverthorne Lumber Co. v. United States* (251 U.S. 385, 64 L. Ed. 319, 40 S. Ct. 182, 24 A.L.R. 1426); *Hale v. Henkel* (201 U.S. 43, 50 L. Ed. 652, 26 S. Ct. 370); *Interstate Commerce Commission v. Brimson* (154 U.S. 447, 448 ff, 38 L. Ed. 1047, 14 S. Ct. 1125, 4 Inters. Com. Rep. 545). See also *Consolidated Rendering Co. v. Vermont* (207 U.S. 451, 52 L. Ed. 327, 28 S. Ct. 178, 12 Ann. Cas. 658).

The use of the subpoena power to compel the production of business records may be an "unreasonable search and seizure." *Boyd v. United States*, 116 U.S. 616 (1886); *Federal Trade Commission v. American Tobacco Co. supra*; *Oklahoma Press Publishing Co. v. Walling*, 327 U.S. 186, 203 (1946).

Section 302 (j) and (k) of H.R. 6960 not only empower the President to compel the production of books, papers, and documents "relating to any matter pertaining to" his investigation, but also specifically provide that such data are admissible as evidence in a prosecution of violation of section 101 of title 18 of the United States Code. That statute makes it a crime for a person to make a misrepresentation in any matter within the jurisdiction of any department or agency of the United States.

An investigation by the President pursuant to a petition for adjustment assistance filed by a labor organization could bring within its scope the entire manufacturing operations of an automobile company in Canada and in the United States and the whole course of paperwork originated in regard to the flow of motor vehicles and parts between the two countries. The exports to Canada are subject to the filing of export declarations, and the imports are subject to the filing of import entries and certificates of eligibility for duty-free treatment. See Treasury Decision 56381, January 27, 1965, requiring importers to file with entry documents a statement that the motor vehicles, parts, or accessories covered by the entry are within the description of annex B to the Canadian-United States Automotive Agreement.

Thus, the bill as introduced empowers the President to compel the production of documents which could be used in a criminal prosecution against the automobile companies and their officers and employees.

In this respect, the bill is very like the statutory provisions before the Supreme court in *Boyd v. United States, supra*. There under provisions of the customs laws of the United States a district attorney had secured a subpoena directing an importer to produce an invoice covering certain merchandise which had been imported into the United States. It was contended that the subpoena was invalid as an unreasonable search and seizure forbidden by the fourth amendment. The Supreme Court upheld this contention, stating:

"It is our opinion, therefore, that a compulsory production of a man's private papers to establish a criminal charge against him or to forfeit his property is within the scope of the fourth amendment to the Constitution, in all cases in which a search and seizure would be; because it is a material ingredient and effects the sole object and purpose of search and seizure" (116 U.S. at 622).

In order to determine whether the use of the subpoena was an unreasonable search and seizure, the Supreme Court considered the intention of the Founding Fathers in adopting the fourth amendment. The Court reviewed the practice which obtained in the Colonies of issuing writs of assistance to revenue officers which James Otis had pronounced "the worst instrument of arbitrary power, the most destructive of English liberty and the fundamental principles of law, that ever was found in an English law book;" since they placed "the liberty of every man in the hands of every petty officer." (*Ibid.* at 625.)

The Court stated that the events which took place in England and in the Colonies following the argument about writs of assistance in Boston were fresh in the memories of those who achieved our independence and established our form of government. The Court referred to the celebrated decision of the English court in *Entick v. Carrington* in 1765 in an action for trespass for entering the plaintiff's home and searching and examining his papers. The Supreme Court declared that every American statesman during our formative period as a nation was undoubtedly familiar with this monument of English freedom and considered it the true and ultimate expression of constitutional law. The Court, therefore, concluded that the English case was in the minds of those who framed the

fourth amendment to the Constitution. The Supreme Court found it pertinent to quote the following passage from this landmark decision in constitutional law:

"Papers are the owner's goods and chattels; they are his dearest property; and are so far from enduring a seizure that they will hardly bear an inspection; and though the eye cannot by the laws of England be guilty of a trespass, yet, where private papers are removed and carried away, the secret nature of those goods will be an aggravation of the trespass, and demand more considerable damages in that respect. Where is the written law that gives any magistrate such a power? I can safely answer, there is none; and, therefore, it is too much for us, without such authority, to pronounce a practice legal which would be subversive of all the comforts of society." (Ibid. at 628.)

The Supreme Court applied the principles of the *Entick* decision to the case before it, as follows:

"The principles laid down in this opinion affect the very essence of constitutional liberty and security. They reach farther than the concrete form of the case then before the court, with its adventitious circumstances; they apply to all invasions, on the part of the Government and its employees, of the sanctity of a man's home and the privacies of life. It is not the breaking of his doors and the rummaging of his drawers that constitutes the essence of the offense; but it is the invasion of his indefeasible right of personal security, personal liberty and private property, where that right has never been forfeited by his conviction of some public offense; it is the invasion of this sacred right which underlies and constitutes the essence of Lord Camden's judgment. Breaking into a house and opening boxes and drawers are circumstances of aggravation; but any forcible and compulsory extortion of a man's own testimony or of his private papers to be used as evidence to convict him of crime or to forfeit his goods is within the condemnation of that judgment. In this regard the fourth and fifth amendments run almost into each other.

* * * * *

"* * *. And any compulsory discovery by extorting the party's oath, or compelling the production of his private books and papers, to convict him of crime or to forfeit his property, is contrary to the principles of a free government. It is abhorrent to the instincts of an Englishman; it is abhorrent to the instincts of an American. It may suit the purposes of despotic power; but it cannot abide the pure atmosphere of political liberty and personal freedom." (Ibid. at 630-1.)

The *Boyd* case concerned a private individual rather than a corporation. But as the Supreme Court later held in *Federal Trade Commission v. American Tobacco Co.*, *supra*.

"The mere facts of carrying on a commerce not confined within State lines, and of being organized as a corporation, do not make men's affairs public, as those of a railroad company now may be (citation). Anyone who respects the spirit as well as the letter of the fourth amendment would be loath to believe that Congress intended to authorize one of its subordinate agencies to sweep all our traditions into the fire (citation), and to direct fishing expeditions into private papers on the possibility that they may disclose evidence of crime." (264 U.S. at 305, 306.)

It is respectfully submitted that the task of the Congress when a sweeping request such as section 302 (j) and (k) of H.R. 6960 is presented is to achieve a balancing of the public interest as represented by the ability of the President (or the Tariff Commission) to make an investigation which will produce the necessary facts for a determination on the merits of a petitioner's claim for adjustment assistance, on the one hand, versus a guarding of the private rights affected against abuses which the Constitution itself recognizes as of paramount importance. Freedom from search and seizure and threatened abuses of the subpoena power are among the objects which the Congress must consider in achieving this balance. There is the further right described by the Supreme Court in *Oklahoma Press Publishing Co. v. Walling*, *supra*:

"They are rather the interests of men to be free from officious intermeddling whether because irrelevant to any lawful purpose or because unauthorized by law, concerning matters which on proper occasion and within lawfully conferred authority of broad limits are subject to public examination in the public interest. Officious examination can be expensive, so much so that it eats up men's substance. It can be time consuming, clogging the processes of business. It can become persecution when carried beyond reason." (327 U.S. at 213.)

The bill, by expressly authorizing the President to make public disclosure of information whose submission was forced by the subpoena, would appear to destroy

the power of the judiciary to afford protection against the disclosure of confidential data or business secrets secured through compulsory process. In *Graber Manufacturing Co. v. Dixon* (223 F. Supp. 1020 (D.C., D.C. 1963)), the court held that, against the objections of the Federal Government, a private business corporation was entitled to have certain materials called for by subpoena duces tecum accorded permanent in camera status. The court found that disclosure of the data would injure the corporation's business by making vital business facts available to its competitors. Such judicial power is an important means of preventing in particular cases the exercise of the subpoena power by a Government official from becoming an unreasonable search and seizure.

If the Congress enacts subsection (k) of section 302 of H.R. 6960, it will prevent a court in the future from affording permanent in camera status to confidential business data even though the petitioning corporation carried its burden of proving that a clearly defined and irreparable serious injury to its business would result from public disclosure of the information it had been compelled to produce upon command of the President or his delegate. The presence of that provision in the bill, therefore, converts a grant of subpoena power which might otherwise stand the test of constitutionality into a procedure for conducting unreasonable searches and seizures in violation of the fourth amendment.

It is no answer to this problem to say that the President would not allow such use to be made of the power. The President himself is unlikely to use the power. It would be some Government official unknown to the Committee on Ways and Means of the House, and the Senate Finance Committee, and the Congress, who in the fullness of time would undertake as part of his delegated responsibilities the exercise of his own judgment and administrative or political zeal to secure information from an automobile company where the courts would be powerless to protect the company in view of section 302(k) absent a finding of unconstitutionality.

The Congress should not compound a law which is otherwise so desirable as H.R. 6960, with an unconstitutional provision such as the subpoena power disclosure of confidential information subsections of the bill, with the certain knowledge that the only judicial recourse to a citizen or private corporation from the type of search and seizure castigated by the Supreme Court in the *Boyd* and *American Tobacco* cases would be a finding that the statute is unconstitutional.

CONCLUSION

It is respectfully submitted that the discussion contained in this brief establishes—

1. Section 302 (j) and (k) of the bill are contrary to the tradition and practice of the Congress in regard to a disclosure of confidential data of private business corporations.

2. They are unnecessary in view of the Tariff Commission's competence and its procedures for conducting investigations which fully protect confidential business data.

3. They are probably a violation of the fourth amendment to the Constitution.

In review of the complete freedom of action conferred on the President by section 332(g) of the Tariff Act of 1930, which insures that the adjustment assistance provisions of the bill can be successfully administered by the President with the assistance of the Tariff Commission in investigating matters of fact, which the Commission is in a position promptly and expertly to supply, the Committee on Ways and Means is respectfully requested to delete section 302 (j) and (k) from H.R. 6960. No substitute provisions are required.

Respectfully submitted.

EUGENE L. STEWARD, Esq.,
Special Counsel for Chrysler Corp.

The CHAIRMAN. Without objection we will recess now until 1:30 this afternoon.

(Whereupon, at 12:35 p.m., a recess was taken until 1:30 p.m. of the same day.)

AFTER RECESS

(The committee reconvened at 1:30 p.m., Hon. Wilbur D. Mills, chairman of the committee, presiding.)

The CHAIRMAN. The committee will please be in order.

Mr. Secrest, if you will identify yourself for our record by giving us your name and address and capacity in which you appear, we will be glad to recognize you.

**STATEMENT OF FRED G. SECREST, VICE PRESIDENT AND
CONTROLLER OF FORD MOTOR CO.**

Mr. SECREST. My name is Fred G. Secrest. I am vice president and controller of the Ford Motor Co. in Dearborn, Mich., and I am here to testify for Ford on the bill.

The CHAIRMAN. You are recognized, sir.

Mr. SECREST. We appreciate the opportunity to appear before this committee and to give you our views on the pending legislation.

Ford Motor Co. endorses this bill. We think it will benefit both the U.S. economy and our own company.

The United States and Canada constitute, essentially, a single automotive market, in which maximum growth in employment, efficiency and productivity cannot be achieved without a reduction of existing trade barriers. National interests, however, require that solutions to the automotive trade problem be consistent with the economic goals in both countries. The agreement between the two governments, signed on January 16, 1965, is designed to achieve these objectives.

Registrations of new cars and trucks in Canada have ranged between 7 and 8 percent of U.S. levels in recent years. Over 90 percent of the vehicles sold in Canada are "North American" types, largely common with U.S.-made products. Most of these vehicles are assembled in Canada, and, despite their high degree of interchangeability with U.S. vehicles, they incorporate substantial percentages of Canadian-made components. This reflects the fact that the Canadian Government has for many years given preferential tariff treatment to companies producing cars that contain at least 60 percent Canadian content. The result has been the development of a national industry that now employs over 50,000 Canadians.

Nevertheless, the effects of this tariff policy have been unsatisfactory from Canada's standpoint:

1. Because of the low volume of Canadian automotive production relative to the United States, and the duplicate tooling required, the Canadian industry has been high cost and inefficient in many respects. This is demonstrated by Canadian automotive price levels some 8 percent above those in the United States, despite per capita income more than 30 percent below the United States.

2. Because of rising volumes, the Canadian-content and tariff rules have not succeeded in holding Canada's automotive trade deficit to acceptable levels.

As demand for cars in Canada has risen, aggregate automotive imports (comprising as much as 40 percent of the cost of each car) have of course risen proportionately. Canada imported about \$660 million in automotive items from the United States in 1964; its automotive exports to the United States were less than one-tenth as large.

Canada's resulting net adverse balance of about \$600 million was 60 percent above its 1961 adverse balance, despite its attempt to spur exports in 1964 through a duty-remission plan that has now, as you know, been terminated.

It seems clear that higher tariffs or higher content requirements might improve Canada's trade balance, but at the expense of even greater cost inefficiencies. Conversely, unlimited entry of high-volume, low-cost U.S. components would tend to lower Canadian automotive costs and prices, but would further reduce Canada's already unfavorable participation in the North American automotive market and increase its trade deficit with the United States.

The new agreement is a novel and imaginative attempt to reconcile the two goals. Briefly, it provides duty-free treatment to new motor vehicles and original equipment automotive parts traded between the two countries by or for designated manufacturers.

Canadian-content requirements are continued, but in a manner that will, over time, permit them to be achieved through efficient, high-volume production of components for both United States and Canadian use.

This contrasts with the rigidity of the old arrangement whereby Canadian-manufactured components could be counted for content only when used in the production of vehicles in Canada.

As we shall demonstrate, we expect that the agreement will—

1. Increase the efficiency of the automotive industry, and promote a more rapid rate of growth in output and employment in both countries; and

2. Maintain a major Canadian export market for U.S. producers of automotive items, and insure continuance of an automotive trade balance between the two countries that is favorable to the United States, and yet acceptable in magnitude to the Canadian Government.

QUALIFICATIONS ON FREE TRADE

The new agreement, with its associated qualifications, can not be considered perfect. From the standpoint of the U.S. economy, of consumers in both countries, and of Ford, the best approach might well prove to be completely free automotive trade between the United States and Canada. Perhaps such a result can someday be achieved without an unacceptable strain on the Canadian trade balance. In the present circumstances, however, the limited free-trade approach provided in the agreement seems entirely reasonable.

The agreement imposes certain qualifying restrictions on automotive trade. Some of these are contained in the definitions set forth in "Annex A" of the agreement. Others are incorporated in a "letter of assurance" that has been furnished by Ford of Canada to the Canadian Government.

There have been some ominous rumblings about the nature of these qualifications. They have been described as complex, which is true, and as somehow sinister or secret, which is false. Perhaps it would be helpful to describe these terms, at least as they apply to Ford.

Annex A of the agreement limits the Canadian duty-free treatment to imports by or for a vehicle "manufacturer," and it establishes two

significant criteria that must be met by a firm to attain, or retain, "manufacturer" status:

1. For each producer, the ratio of the sales value of vehicles assembled in Canada to vehicles sold in Canada, in each future year, must be at least as high as the corresponding ratio during the 12 months ended July 31, 1964 (the "base year"). For Ford of Canada, the ratio was about 98 percent for cars and about 108 percent for trucks in the base year.

2. The aggregate dollar value of Canadian content in vehicles assembled in Canada by each company must be maintained at (or above) the level achieved during the base year. If the company's sales of vehicles in Canada should drop below the base year level, however, the dollar content requirement of this provision would be reduced proportionally. Exports of production parts to the United States from Canadian plants do not generally qualify as Canadian content under this provision.

Two further commitments are not included in the agreement itself but are in Ford of Canada's "letter of assurance" to the Canadian Government:

3. If and when the level of Ford's sales in Canada rises above the base year level, the dollar value of Ford's Canadian content in cars must be increased by 60 percent (50 percent in trucks) of the cost of such added sales. For this purpose, however, Canadian content includes vehicles and production parts exported from Canada, by Ford or its vendors, as well as vehicles and production parts produced and sold in Canada.

4. Over and above all the other commitments, Ford undertakes to raise by 1968 its total Canadian content by a specific dollar amount. The other Canadian automotive manufacturers have, we understand, given proportional assurances. The total of these extra commitments, for the entire industry, is roughly equal to one-half of Canada's 1962 automotive trade deficit. The content increase required under this provision may also be achieved through export of vehicles or production parts by Ford or its vendors, as well as by the manufacture in Canada of vehicles and production parts sold in Canada.

The purposes of these four qualifications are straightforward. The first is designed to maintain vehicle assembly operations in Canada in roughly the same proportion to vehicle sales in Canada as in the past.

Of major importance here, however, is the fact that the cars produced in Canada do not need to be the same units that are sold in Canada. Ford could choose to meet a Canadian production requirement of, say, 150,000 cars by assembling 150,000 standard Fords, and no Mercurys or Falcons, in our Canadian plant. We could then ship half of these Fords to the U.S. market, and bring in from the United States enough of our other cars to equal the value of the exported Fords and to serve the Canadian market needs for the other lines. Plans of this general nature would greatly reduce the extreme cost penalties hitherto incurred in assembling 71 car models and 227 truck models in our single Canadian assembly plant.

The second provision—maintenance of aggregate dollar Canadian content at the 1964 level—is aimed at retaining a base level of manufacturing content in those vehicles that are assembled in Canada, thus

discouraging immediate reorientation of the entire Canadian parts industry toward production of selected high volume components, primarily for export.

The significance of this fixed-dollar restriction will decline as the Canadian market grows. Ford's 1964 base year content, as defined here, was \$213 million, representing about 60 percent of the 1964 factory cost of our Canadian production.

By 1968, we expect our Canadian volume to have grown substantially, so that the \$213 million requirement will be a considerably smaller percentage of our 1968 factory cost.

The third provision—60 percent Canadian content in market growth—would assure Canada of its historic proportion of any value increments associated with a rising Canadian market; it would, however, permit efficient use of this added value on high-volume production of certain vehicles or components for export, as well as for consumption in Canada. The fourth provision would simply reduce, by 1968, Canada's automotive trade deficit by a designated minimum amount (below what it would otherwise be); note that it is not intended to eliminate the Canadian trade deficit.

The net effect of the above requirements, imposed on what otherwise would be a completely free flow of vehicles and production parts into Canada, is as follows: the Canadian Government is assured that, if it gives U.S. producers free access to the Canadian market, Canada at least will (1) retain the automotive business it has had in the past; (2) share reasonably in any growth that may occur in its own market; and (3) receive enough new business to reduce, but not eliminate, its imbalance of trade in automotive products.

These are the principal qualifications involved in the agreement and the letter of assurance. Among the restrictions not incorporated in either document, or anywhere else, are some that have been wrongly implied by various critics:

1. There is no differentiation between exports (or imports) of parts for original equipment produced by the auto companies and parts for such equipment produced by independent parts manufacturers, in either country.

2. There is no commitment to "grant" any share of the U.S. automotive market to Canadian producers of either vehicles or parts.

3. There is no commitment to raise Ford's investment or employment in Canada, although it seems reasonable to conclude that some increases in both will occur to meet the assurance of added Canadian-content.

The key questions about the agreement would appear to be these:

1. What is likely to be its effect on the United States-Canadian automotive trade balance?

2. If the agreement should fail of implementation, what would be likely to happen next, and how would such developments affect the U.S. trade balance and employment?

3. Might the U.S. automotive industry, or specific major segments thereof, be adversely affected by the agreement?

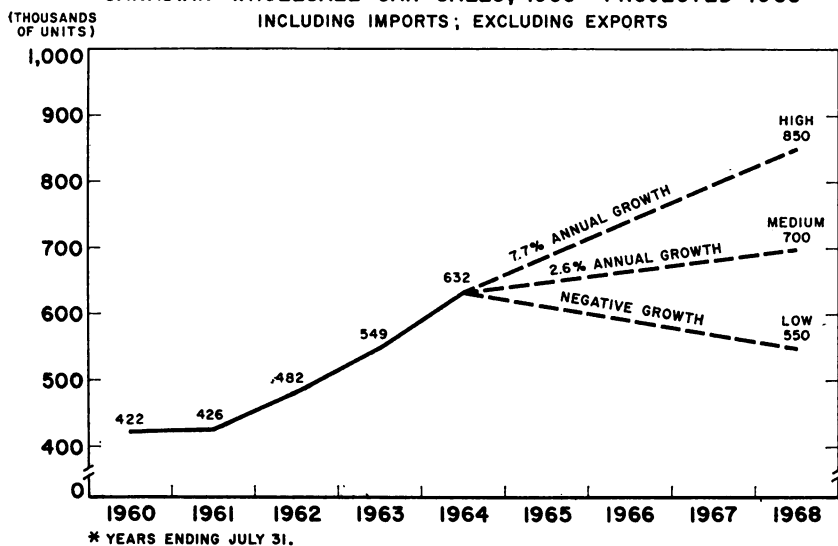
EFFECTS ON UNITED STATES-CANADIAN TRADE

Turning to the first question, the probable impact of the agreement on our trade balance with Canada, the most important variable will be the rate of growth in the Canadian automotive market.

On chart I we have plotted three growth rates through 1968:
(Chart referred to follows:)

CHART I

CANADIAN WHOLESALE CAR SALES, 1960 - PROJECTED 1968 *
INCLUDING IMPORTS; EXCLUDING EXPORTS



ACTUAL ANNUAL GROWTH RATES

1960 - 1964 +10.6%

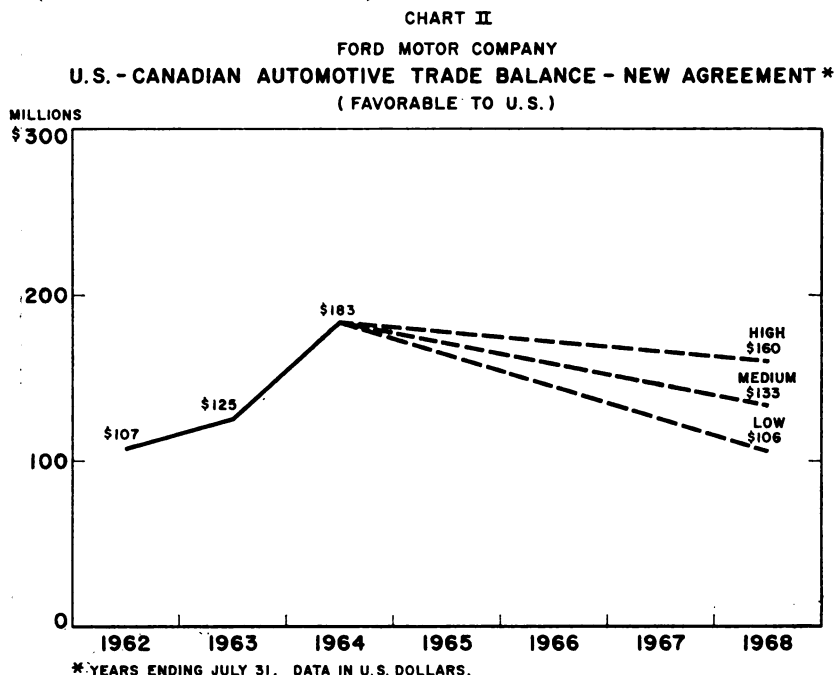
1961 - 1964 +14.0%

Mr. SECREST. The "low" assumption obviously treats the recent and current strength of the Canadian car market as a cyclical peak involving borrowing sales from the future. It projects 1968 demand at 550,000 cars, about the same as in 1963 and 13 percent below 1964. This seems most unlikely to us, particularly as 1965 sales will probably rise to about 660,000 instead of declining to 610,000 as indicated in the "low" trend line. It is included solely to show the most pessimistic assumption possible from the standpoint of the United States.

The "medium" assumption suggests slow continued growth, at a rate of 2.6 percent a year, to a level of 700,000 cars by 1968. The "high" assumption yields a market of 850,000 cars in 1968, a growth rate of 7.7 percent annually after 1964. Although this may sound extreme, it is well below the annual rate of 10.6 percent at which the Canadian market has grown from 1960 through 1964. (For comparison, the U.S. auto market grew 5.1 percent annually between 1960 and 1964, and 10.9 percent annually between 1961 and 1964.)

Chart II shows Ford Motor Co.'s actual automotive balance-of-trade position between the United States and Canada for 1962-64. It projects similar data for future years (based on volume estimates that include trucks and service parts as well as cars) under the new agreement for each of the three basic growth assumptions:

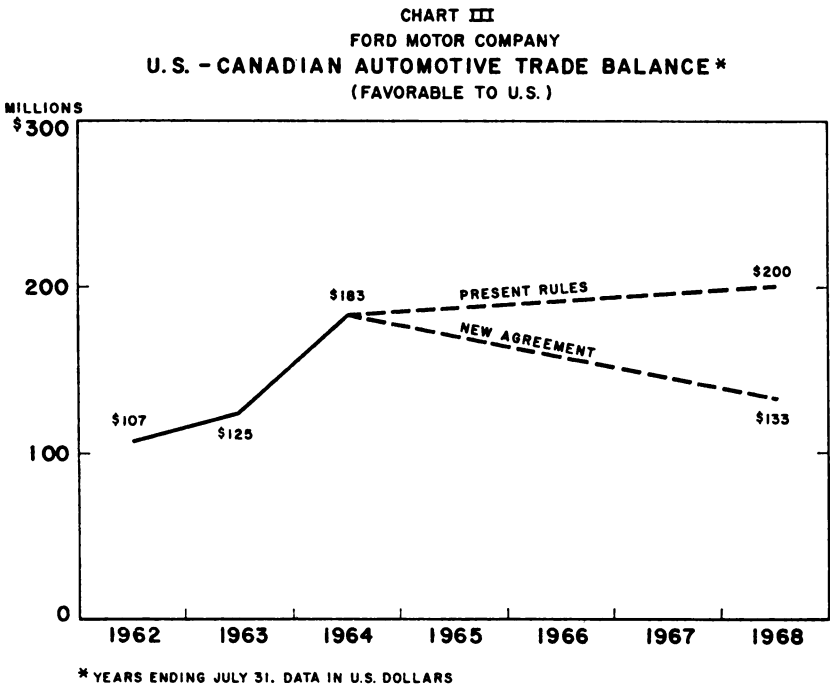
(Chart referred to follows:)



Mr. SECREST. Even under the "low" growth assumption, Ford would generate an estimated \$106 million favorable trade balance with Canada by 1968. Under the "high" assumption, Ford's U.S. automotive trade surplus with Canada in 1968 would be \$160 million, \$35 million or 28 percent above the 1963 level, and only 13 percent below 1964.

The conclusion, of course, is that we expect Ford, and the U.S. automotive industry, to continue to earn substantial favorable trade balances for the United States under the new agreement—probably more than in 1963. Does this mean that the Canadian Government has been incredibly wrong about the probable results of the agreement? Not at all; for if the market were to grow at the "medium" rate, and the old tariff and content rules were to remain in effect, we believe Ford's balance alone could approximate \$200 million unfavorable to Canada by 1968, as shown in chart III.

(Chart referred to follows:)



Mr. SECREST. From Canada's standpoint, then, a 1968 trade deficit of \$133 million on Ford's United States-Canadian business would represent about a one-third improvement compared with continuing the present trade rules—even though, in aggregate dollars, the result would still be worse than 1963.

If the agreement thus would alleviate Canada's trade balance problem why should not the United States, in its own self-interest, reject the agreement and insist on retention of the present rules? This raises the second major question: in such an event, what would Canada do next?

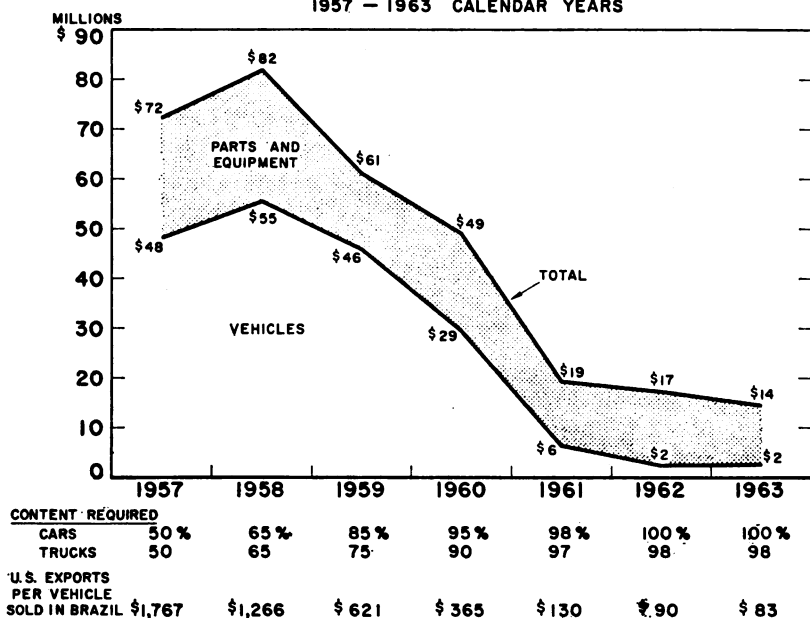
EFFECTS OF ALTERNATIVES

Speculation here may be dangerous, but we do know what other nations have done. They have acted to reduce automotive imports very substantially, through high tariff walls, restrictive local content requirements, quotas, licenses, or combination of these. Their consumers have paid a heavy price for this in terms of fewer and more expensive cars; but this price has been considered preferable to widening payments deficits and reduced employment. Chart IV shows the effect of such policies in Brazil on U.S. automotive exports in recent years:

(Chart referred to follows:)

CHART IV

U.S. AUTOMOTIVE EXPORTS TO BRAZIL
1957 - 1963 CALENDAR YEARS



Mr. SECREST. In 1958, when Brazil required 65 percent local content on cars and trucks, the United States exported \$82 million worth of vehicles and automotive parts and equipment to Brazil. In 1963, when the content requirement was 98 to 100 percent, U.S. exports were \$14 million. Per vehicle sold in Brazil, U.S. exports dropped from \$1,266 in 1958 to \$83 in 1963. A similar trend has occurred in Argentina, where the local content requirement on cars was raised from 45 percent in 1962 to 90 percent in 1964, and U.S. exports thereupon dropped from about \$75 to \$18 million.

Australia, Mexico, Britain, the Common Market bloc—all, as well as Brazil and Argentina, have restricted automotive imports through content provisions, high external tariffs, or import licenses. We see no basis for assuming that Canada, in its own self-interest, would not take similar action if the pending agreement is not implemented.

It should be pointed out that Canada would be under no obligation to work out an "agreement" with the U.S. Government in order to raise its local content requirements.

Ford naturally prefers the limited free-trade solution worked out by the two Governments. In our judgment, it will permit us to serve the Canadian market more efficiently and, in the long run, more profitably than in the past. The terms, although not perfect from our standpoint, are fully acceptable to us as reasonable products of negotiation.

Parenthetically, it should be noted that neither the United States nor the Canadian Government has forced us to make the assurances described earlier in this statement. We think the agreement, and the associated assurances given by Ford of Canada, are in the best interest of both Ford-United States and Ford of Canada.

If the agreement should not be implemented we think Canada would eventually take actions that would reduce the already unsatisfactory profitability of our Canadian operations, by forcing even greater inefficiencies.

EFFECTS ON THE U.S. AUTOMOTIVE INDUSTRY

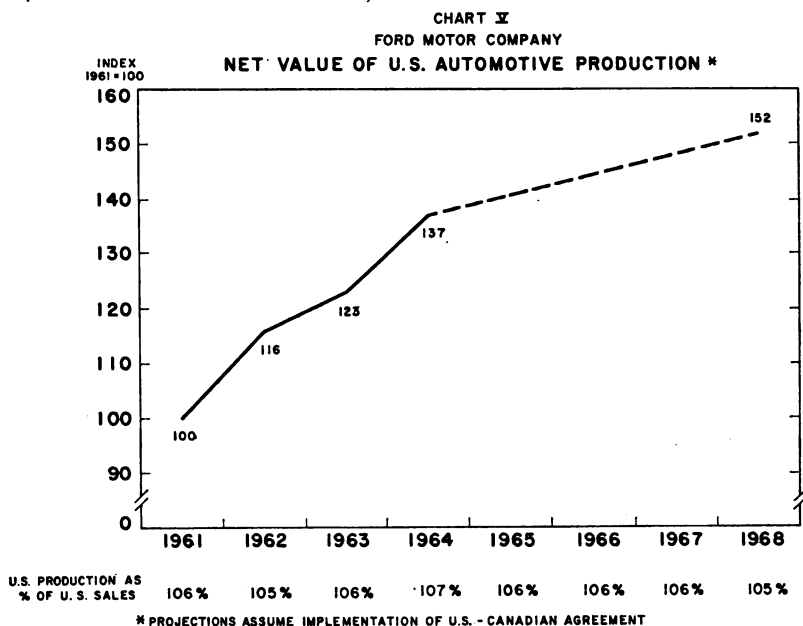
Let us now consider briefly the possible effects of the agreement on the U.S. automotive industry. If and when the agreement becomes fully operative, Ford-United States and its American vendors will of course have a strong incentive to increase their Canadian purchases. But the heart of the agreement is its incentive for trade expansion in both directions. Many automotive products now made inefficiently in Canada will in the future be supplied from efficient U.S. sources. We have cited the assembly example; any U.S. job losses that might result from importation of Ford cars from a Canadian plant would be offset by additional jobs needed to produce more of our other car lines for export to Canada. We should expect similar offsets in other segments of our business.

There is, of course, nothing in the agreement or the supplemental assurances that makes available only to the vehicle manufacturers, and not to the parts makers as well, opportunities for profitable expansion of exports to Canada. Let us assume that Ford of Canada is buying dozens of different kinds of wiring assemblies for its 298 models from a Canadian producer. It may well prove efficient under the new rules for this producer to sell only a few kinds of wiring assemblies to both Ford of Canada and Ford-United States. Our American suppliers of all the other types of wiring assemblies, then, would have access for the first time to a dutyfree Canadian market, in addition to their retained American market. There is no basis for assuming that transfers of business to Canada from the United States, if they do occur, would come principally from "independent" parts makers, rather than from the U.S. plants of the auto producers themselves.

It is important to keep the potential effects of this agreement in proper perspective, relative to the overall size and growth rate of the U.S. auto industry.

Chart V shows, in index form, the net value of Ford's U.S. automotive production for 1961 to 1964, with a projection through 1968 based on the expected normal growth rate of our business and on implementation of the trade agreement. (The term "net value of U.S. automotive production" means total automotive sales in the United States, plus exports, minus imports; it includes our vendors' contributions, as well as our own.)

(Chart referred to follows:)



Mr. SECREST. Since 1961, the net value of Ford's U.S. production has risen 37 percent. By 1968, we project (conservatively, we think) that the increase over 1961 will exceed 50 percent. This increase involves roughly \$2½ billion in added U.S. output—and some 50,000 added U.S. jobs. Compare this with the projections shown earlier (chart II) of changes, versus 1963, ranging from plus \$35 million to minus \$19 million in Ford's 1968 trade balance resulting from the Canadian agreement, and one can get a better idea of the nominal effects of the agreement on the total U.S. output and employment of Ford and its vendors.

Further, as shown below the chart, Ford's net value of U.S. automotive production will continue to exceed, in future years, the value of our U.S. sales by 5 percent to 6 percent—in other words, we expect our exports of automotive products, to all markets combined, to out-distance our imports by about the same percentage as in recent years.

In summary, we believe that the agreement offers the United States a continuing favorable automotive balance of trade with Canada that will approximate for the industry \$500 to \$600 million by 1968 and that it also offers to the North American auto industry the opportunity for efficient volume production. These benefits compare with the alternative of an almost certain increase in trade restrictions by Can-

ada that would eliminate most of our automotive exports to Canada with serious attendant employment loss for U.S. workers.

Finally, the timing of the agreement is significant. Our United States and Canadian companies are both operating at capacity. Both have plans for major expansion—Ford will spend over \$400 million on new or expanded facilities in the United States alone this year, and the 1966 total will be higher. If there were ever a time when the American auto industry—car makers, vendors, and workers alike—could afford to seek the long-run gains of more liberal trade, that time is today.

Mr. Chairman, that concludes our formal statement. I would like to enter in the record at this time with your consent, copies of our letters of assurance between Ford of Canada and the Canadian Government.

The CHAIRMAN. Without objection, the letters will appear at this point in the record.

(Letters referred to follow :)

OAKVILLE, ONTARIO, *January 14, 1965.*

DEAR MR. MINISTER: Enclosed are executed copies of our two letters to you of this date relative to the proposed agreement between the Governments of Canada and the United States concerning trade and production in automotive products under which it is proposed that the customs duty in each country on the importation from the other of automotive vehicles and original equipment parts therefor be eliminated.

We consider it essential that any substantial administrative interpretation or treatment that may be extended by you to any other motor vehicle manufacturer, the lack of which would place Ford Motor Co., in a noncompetitive position, also be extended to Ford.

You have provided us with a draft of the proposed order-in-council expected to be adopted in order to implement that agreement and with a draft of the regulations proposed to be adopted under that order-in-council.

Our undertakings are, of course, conditional upon the execution of that agreement, upon the adoption of an order-in-council, and regulations substantially in the form of the drafts that you have already delivered to us, and upon an acceptable response in respect of the enclosed supplementary letter.

Yours sincerely,

FORD MOTOR CO. OF CANADA, LTD.,
By KARL E. SCOTT, *President.*

OAKVILLE ONTARIO, *January 14, 1965.*

DEAR MR. MINISTER: We are writing with respect to the agreement between the Governments of Canada and the United States concerning production and trade in automotive products.

Ford Motor Co. of Canada, Ltd., welcomes the agreement and supports its objectives. In this regard, our company notes that the Governments of Canada and the United States have agreed “* * * that any expansion of trade can best be achieved through the reduction or elimination of tariff and all other barriers to trade operating to impede or distort the full and efficient development of each country's trade and industrial potential * * *.” In addition, we note that the Governments of Canada and the United States “* * * shall seek the early achievement of the following objectives:

“(a) The creation of a broader market for automotive products within which the full benefits of specialization and large-scale production can be achieved;

“(b) The liberalization of United States and Canadian automotive trade in respect of tariff barriers and other factors tending to impede it, with a view to enabling the industries of both countries to participate on a fair and equitable basis in the expanding total market of the two countries;

“(c) The development of conditions in which market forces may operate effectively to attain the most economic pattern of investment, production and trade.”

Our company also notes that the right to import motor vehicles and original equipment parts into Canada under the agreement is available to vehicle manufacturers in Canada who meet the conditions stipulated in the Motor Vehicles Tariff Order 1965. These conditions are, in brief, that vehicle manufacturers shall maintain in each model year their production of motor vehicles in Canada in the same ratio to sales of motor vehicles for consumption in Canada and the same dollar value of Canadian value added in the production of motor vehicles in Canada, as in the period August 1, 1963, to July 31, 1964.

We understand that—

(i) in ascertaining whether Ford qualifies as a motor vehicle manufacturer and whether the requirements of paragraphs 1 and 2, below, are satisfied, production of automotive vehicles in Canada by Ford Motor Co. of Canada, Ltd., and by any person designated as associated with Ford Motor Co. of Canada, Ltd. ("an associated person") will be taken into account, whether sold in Canada or exported;

(ii) in determining whether the requirements of paragraphs 1 and 2, below, are satisfied, export sales of original equipment parts by Ford Motor Co. of Canada, Ltd., and by any associated person in Canada (as well as production of automotive vehicles in Canada by Ford Motor Co. of Canada, Ltd., and by any associated person, whether sold in Canada or exported), and purchases of original equipment parts by any affiliated Ford company, outside of Canada from Canadian vendors, will be taken into account. An "affiliated Ford company" is one that controls, or is controlled by, or is under common control with, Ford Motor Co. of Canada, Ltd.

(iii) for the purpose of computing the ratios referred to in paragraph 2(1)(e)(ii)(A) of the order in council of the definition of manufacturer, the numerators of the fractions will consist of the net sales value of all passenger automobiles (or specified commercial vehicles or buses) produced by the motor vehicle manufacturer in Canada, including those sold in Canada and those sold in export, and the denominators of the fractions will consist of the net sales value of all passenger automobiles (or of specified commercial vehicles or buses) sold by the motor vehicles manufacturer for consumption in Canada, including imported passenger cars (or specified commercial vehicles or buses) but excluding passenger cars (or specified commercial vehicles or buses) that are produced by the motor vehicle manufacturer in Canada and sold in export.

The undertakings in this letter are based on the definition of "Canadian value added" in your present regulations.

We understand that in the computation of Canadian value added for vehicle assembly in Canada, section 2(a)(i) of the regulations would prevent us from including the cost of parts produced in Canada that are exported from Canada and subsequently imported into Canada as components of original equipment parts; this provision reduces the incentive to source in Canada parts that would be incorporated in U.S. engines and other original equipment parts. Accordingly, we request that you give careful consideration to the revision of this clause.

In addition to meeting these stipulated conditions and in order to contribute to meeting the objectives of the agreement, Ford Motor Co. of Canada, Ltd., undertakes:

1. To increase in each model year over the preceding model year Canadian value added in the production of vehicles and original equipment parts by an amount equal to 60 percent of the growth in the market for automobiles sold by our company for consumption in Canada and by an amount equal to 50 percent of the growth in the market for the commercial vehicles specified in tariff item 950 sold by our company for consumption in Canada, it being understood that in the event of a decline in the market a decrease in Canadian value added based on the above percentages is acceptable. For this purpose, growth or decline in the market shall be measured as the difference between the cost to our company of vehicles sold in Canada during the current model year and the cost to our company of vehicles sold in Canada during the preceding model year net of Federal sales taxes in both cases.

We understand that in the event that the total passenger car and/or total truck sales of our company in any model year fall below the total passenger car and/or total truck sales of our company during the base period, Canadian value added requirements would be reduced below the base period amounts for the purpose of this section, and for the conditions stipulated in the Motor Vehicles Tariff Order 1965.

We believe that the definition of growth is unfair because it includes as growth the difference between the cost of vehicles produced in Canada and the cost to us of identical imported vehicles. In the event that we rationalize our vehicle production in Canada so as to concentrate our production in Canada on high volume models for the North American market with other models being imported, the difference in cost as defined above would result in a substantial growth even though there was no change in the number and models of vehicles sold in Canada. We request your careful consideration of a change in the definition that would eliminate this inequity. This inequity is compounded by the fact that Ford Motor Co. of Canada, Ltd., is compelled by the Canadian anti-dumping law to import vehicles at dealer price, and we request that your Government also give careful consideration to a change in the antidumping law in respect of vehicles imported under the Motor Vehicles Tariff Order 1965.

2. To increase Canadian value added over and above the amount that we achieved in the period August 1, 1963, to July 31, 1964, and that which we undertake to achieve in (1) above, by an amount of \$74.2 million during the period August 1, 1967, to July 31, 1968.

The undertakings given in this letter are to be adjusted to the extent necessary for conditions not under the control of the Ford Motor Co. of Canada, Ltd., or of any affiliated Ford Company, such as acts of God, fire, earthquake, strikes at any plant owned by Ford or by any of our suppliers, and war.

The Ford Motor Co. of Canada, Ltd., also agrees to report to the Minister of Industry, every 3 months beginning April 1, 1965, such information as the Minister of Industry requires pertaining to progress achieved by our company, as well as plans to fulfill our obligations under this letter. In addition, Ford Motor Co. of Canada, Ltd., understands that the Government will conduct an audit each year with respect to the matters described in this letter.

We understand that before the end of model year 1968 we will need to discuss together the prospects for the Canadian automotive industry and our company's program.

Yours sincerely,

FORD MOTOR CO. OF CANADA, LTD.,
By K. E. SCOTT, *President*.

OAKVILLE, ONTARIO, *January 14, 1965.*

DEAR MR. MINISTER: I wish to bring to your attention a matter of major importance to the Ford Motor Co. which will affect the ability of the company to participate under the Motor Vehicle Tariff Order 1965.

You will recall that our company and its parent, Ford Motor Co., have made commitments to spend in excess of \$50 million to increase production of a limited range of automotive engines in Canada for use in our Canadian plants and for export to the United States. This plan provides for greatly expanded production of engines in Canada, thus making possible substantial cost savings. The production of certain engines now produced in short high-cost runs will be discontinued in Canada but will be imported as required.

As a result of this plan, the contribution of engines to our Canadian value added in the production of motor vehicles in Canada in the 1966 model year and subsequent years, will be substantially reduced below the amount contributed by engines in the 1964 model year. The total Canadian value added of our engine operations for domestic use and for export will however, be increased substantially over our actual value added of engine production in the 1964 model year. For the purpose of the definition of a motor vehicle manufacturer, however, our value added in Canada in the production of motor vehicles in Canada in the base year may experience a short fall of approximately \$22 million. Regardless of this possibility, our total Canadian value added will be maintained at the level of our basic undertaking set forth in paragraph 2 of our letter of January 14, 1965.

Should the total Canadian value added in Ford's vehicle assembly in Canada in any model year fall below the level prevailing in model year 1964, Ford undertakes to purchase an additional amount over the amount purchased in the base year of automotive components from Canadian vendors who are not affiliated with a vehicle manufacturer, which is equal to the short fall in Canadian value added below the level achieved in model year 1964.

This undertaking is conditional upon the Ford Motor Co. of Canada, Ltd., being accorded the same tariff treatment it would receive as if it qualified under the Motor Vehicle Tariff Order 1965.

Yours sincerely,

FORD MOTOR CO OF CANADA, LTD.,
By KARL E. SCOTT, *President*.

The CHAIRMAN. Thank you, Mr. Secrest.

Any questions?

Thank you, Mr. Secrest.

Mr. Chapman?

The CHAIRMAN. Mr. Chapman, please identify yourself for our record by giving us your name and address and the capacity in which you appear.

**STATEMENT OF BERNARD A. CHAPMAN, EXECUTIVE VICE
PRESIDENT, AMERICAN MOTORS CORP.**

Mr. CHAPMAN. My name is Bernard A. Chapman. I am executive vice president of American Motors Corp. of Detroit, Mich. I am appearing here today on behalf of the American Motors Corp.

The CHAIRMAN. You are recognized, sir.

Mr. CHAPMAN. May I say at the outset, I am representing a producer of compact cars. My comments this afternoon will be compact in nature.

I have a brief written statement which, with your permission, I should like to read. Copies have already been given to the clerk of the committee. Following that, I shall be glad to answer any questions the members of the committee may have.

American Motors supports the statement of principles and purposes set forth in the United States-Canadian automotive trade agreement of January 16, 1965. For some years we have advocated the development of similar international trade bridges in all parts of the world, and we are encouraged by the economic logic of the new United States-Canadian trade approach.

By way of background, I might say that American Motors has 36 automotive and home appliance production operations outside the United States in 26 countries around the world. Worldwide sales in our last fiscal year exceeded \$1 billion. I would like today to summarize for this committee certain attitudes and conclusions that we have developed over the years from our international business relationships.

UNDERLYING ECONOMIC OBJECTIVES

The local development of industry within a growth country ordinarily starts on a modest basis. It often requires the importation of many components from outside countries, until the market develops to the point that it is a matter of national interest to move toward more complete or even full integration of production. All benefits that accrued to outsiders during this growth period in which they were shipping significant quantities of materials into the country are not necessarily lost when the growth country decides on a policy of greater integration.

We feel that automotive trade relationships between the United States and Canada have undergone a similar evolutionary development. Originally, Canadian car production consisted of the assembly

of parts and components imported from the United States. As a second step, in 1936 the Canadian Government began to specify minimum Canadian content of Canadian-built cars in a program to develop their own automotive manufacturing resources.

With the substantial expansion of the Canadian automotive market in the 1960's, however, it became apparent that Canada faced both a problem and an opportunity.

The problem of which I speak was the increasing exchange imbalance resulting from continuing heavy importation of U.S. made parts in an expanding market, particularly such vital components as major body stampings, engines, and automatic transmissions. The Canadian opportunity in the situation was the possibility of improving participation in its own growing domestic market, even though not necessarily by manufacture of those same components primarily responsible for creating the exchange imbalance. The Canadian duty remission program started in 1962 was an effort to meet the new situation and this has now been supplanted by the new United States-Canadian automotive trade agreement.

Canada could most readily have followed the traditional method, adopted by many other countries, of raising the prevailing Canadian content requirement to a much higher figure. While this would have achieved a reduction in their automotive trade imbalance, it would, in our opinion, have been harmful to both the Canadian and United States automotive industries because of the inherent cost penalties. We feel, consequently, that the present plan, because it will encourage continued growth of the Canadian automotive industry, and because the United States will continue to share importantly in that growth, is a more appropriate solution to the Canadian automotive situation.

This new approach to automotive trade relationships between our two countries is, we believe, a most promising one.

Broad changes in trade relationships, of course, involve the possibility of temporary dislocation and readjustment. Until the potential of the new program can be fully realized, however, it is proper, in our opinion, for Canada to expect industry cooperation, first in avoiding any reverse impact from the immediate removal of Canadian import duties and, second, in planning toward achievement of longer run objectives.

NATURE OF THE UNDERTAKINGS

The undertakings into which American Motors of Canada, Ltd., has entered with the Canadian Government are, we understand, similar to those entered into by other Canadian automotive manufacturers. They can be summarized as follows:

1. Base content: To maintain Canadian dollar content in vehicles produced in Canada in an amount no less than in the 1964 base year, subject to relief for decreases in volume.

2. Value added on increased sales: To increase "Canadian value added" by an amount equal to 60 percent of any increase in the total cost of production of vehicles sold in Canada.

3. Ratio: To produce in Canada vehicles with a net sales value in at least the same ratio to vehicles sold in Canada as existed in the base year.

4. Value added on added Canadian production: By model year 1968, to increase "Canadian value added" by a specified amount over the 1964 base year, plus the normal growth referred to in (2) above.

OBJECTIVES CAN BE ATTAINED

While we are satisfied that we can meet these undertakings, we have not as yet reached any specific decisions as to the method of doing so. Our studies show that there are several alternative routes, or a combination of routes. These are still under analysis and I am not in a position at this time to predict specifically which direction we will take.

It is possible for us to say, however, that we do not foresee any major change in our present overall operations, although there may be some limited readjustments between Canadian and American production assignments.

With respect to suppliers, I should point out that for some years before the new agreement was signed, American Motors purchased automotive components on both sides of the border. In many cases these purchases have been made from companies operating in both countries.

Recent discussions with our major suppliers indicate that they are either in support of the new United States-Canadian automotive agreement or take a neutral position toward it.

In our opinion, the new United States-Canadian automotive trade agreement is a sound economic approach for both countries. As details of the new relationship are worked out—and this will naturally require some time—we predict that the objectives will be met without adverse effects on U.S. industry.

We anticipate, further, that this elimination of automotive trade barriers will provide the stability of relationships necessary for further growth and will, in addition, generate new economic opportunities to the benefit of the citizens of both our countries.

For these reasons, we recommend to this committee early and favorable action on H.R. 6960, the bill now under consideration to implement the United States-Canadian Automotive Trade Agreement of 1965.

That concludes my statement, Mr. Chairman. I would like at this time to submit for the record the correspondence between American Motors of Canada, Ltd., and the Canadian Government with respect to our assurances to them under this agreement.

The CHAIRMAN. Without objection, that will be inserted in the record at this point.

(The correspondence referred to follows:)

PRO FORMA LETTER RESPECTING COMPANY COMMITMENTS

JANUARY 14, 1965.

Hon. C. M. DRURY,
Minister of Industry, Parliament Building,
Ottawa, Canada.

DEAR MR. MINISTER: I am writing with respect to the agreement between the Governments of Canada and the United States concerning production and trade in automotive products.

The American Motors (Canada) Ltd., welcomes the agreement and supports its objectives. In this regard, our company notes that the Governments of Canada and the United States have agreed “* * * that any expansion of trade can best be achieved through the reduction or elimination of tariff and all other barriers to trade operating to impede or distort the full and efficient development of each country’s trade and industrial potential * * *.” In addition, we note that

the Governments of Canada and the United States " * * shall seek the early achievement of the following objectives :

"(a) The creation of a broader market for automotive products within which the full benefits of specialization and large-scale production can be achieved ;

"(b) The liberalization of United States and Canadian automotive trade in respect to tariff barriers and other factors tending to impede it, with a view to enabling the industries of both countries to participate on a fair and equitable basis in the expanding total market of the two countries :

"(c) The development of conditions in which market forces may operate effectively to attain the most economic pattern of investment, production and trade."

Our company also notes that the right to import motor vehicles and original equipment parts into Canada under the agreement is available to vehicle manufacturers in Canada who meet the conditions stipulated in the Motor Vehicles Tariff Order 1965. These conditions are, in brief, that vehicle manufacturers shall maintain in each model year their domestic production of motor vehicles in the same ratio to sales of motor vehicles and the same dollar value of Canadian value added in the production of motor vehicles in Canada, as in the period August 1, 1963, to July 31, 1964.

In addition to meeting these stipulated conditions and in order to contribute to meeting the objectives of the agreement, the American Motors (Canada) Ltd., undertakes :

1. To increase in each model year over the preceding model year Canadian value added in the production of vehicles and original equipment parts by an amount equal to 60 percent of the growth in the market for automobiles specified in tariff item 950 sold by our company for consumption in Canada, it being understood that in the event of a decline in the market a decrease in Canadian value added in the above percentages is acceptable. For this purpose, growth or decline in the market shall be measured as the difference between the cost to our company of vehicles sold in Canada during the current model year and the cost to our company of vehicles sold in Canada during the preceding model year net of Federal sales taxes in both cases ; and

2. To increase Canadian value added over and above the amount that we achieved in the period August 1, 1963, to July 31, 1964, and that which we undertake to achieve in (1) above by an amount of \$11,200,000 during the period August 1, 1967, to July 31, 1968.

The American Motors (Canada) Ltd., also agrees to report to the Minister of Industry, every 3 months beginning April 1, 1965, such information as the Minister of Industry requires pertaining to progress achieved by our company, as well as to fulfill our obligations under this letter. In addition, the American Motors (Canada) Ltd., understands that the Government will conduct an audit each year with respect to the matters described in this letter.

I understand that before the end of model year 1968 we will need to discuss together the prospects for the Canadian automotive industry and our company's program.

Yours sincerely,

EARL K. BROWNIDGE,
President, American Motors (Canada) Ltd.

The CHAIRMAN. Any questions of Mr. Chapman? Mr. Betts?

Mr. BETTS. What you are going to put in the record is the undertaking you mentioned on page 4 of your statement?

Mr. CHAPMAN. Yes, points 1, 2, 3, and 4.

Mr. BETTS. The other three automobile manufacturers have similar agreements?

Mr. CHAPMAN. Yes. They, too, had submitted them for the record, as I understand.

Mr. BETTS. Those agreements and the general agreement, were they made after the agreement between the two countries or before?

Mr. CHAPMAN. What I have here is a letter from American Motors of Canada to the Canadian Government giving certain—

Mr. BETTS. To who?

Mr. CHAPMAN. To the Canadian Government, giving certain assurances that they will do thus and so as I have outlined as points 1, 2, 3, and 4.

Mr. BETTS. What is the date of that letter?

Mr. CHAPMAN. It is dated January 14, 1965. It was practically simultaneous with the letter of the Prime Minister.

Mr. BETTS. Is that a part of it?

Mr. CHAPMAN. Certainly not a part of the United States and Canadian agreement. It is an assurance that the automobile companies have given the Canadian Government with respect to the agreement.

Mr. BETTS. This was made with respect to the agreement?

Mr. CHAPMAN. Yes.

Mr. BETTS. And it is made in connection with the agreement?

Mr. CHAPMAN. I think you might be able to say that; sir.

The CHAIRMAN. Mr. Schneebeli?

Mr. SCHNEEBELI. Mr. Chapman, can you tell us whether the transfer of the production facilities of the Studebaker Corp. made any noticeable change in the import figures from Canada? When was this transfer effected—1963?

Mr. CHAPMAN. Well, I am not quite in a position to state the facts on Studebaker. Studebaker did have, as a point of information, a plant in Canada for many years.

Mr. SCHNEEBELI. Didn't they transfer their main operation of production to Canada?

Mr. CHAPMAN. Yes.

Mr. SCHNEEBELI. What effect has this had on the overall figures from Canada?

Mr. CHAPMAN. Very little.

Mr. SCHNEEBELI. Very little?

Mr. CHAPMAN. Yes.

Mr. SCHNEEBELI. Thank you.

Mr. KING (presiding). Thank you again, Mr. Chapman.

We have with us today the Honorable John Brademas from the Third District of Indiana. It is good of you to take the time to come before us and you may proceed.

STATEMENT OF HON. JOHN BRADEMAS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF INDIANA

Mr. BRADEMAS. Mr. Chairman, members of the committee, my name is John Brademas. I represent the Third District of Indiana. I would first like to make some observations about some of the events—particularly those that have occurred in my congressional district—which have preceded the legislation you are now considering.

In November 1963, the Canadian Government initiated a duty remission scheme that made it possible for American automobile manufacturers with plants in Canada to buy some Canadian-made automobile parts at lower prices than American-made automobile parts. The effect of this scheme was to pirate away portions of the American automobile parts business to Canada.

A warning alarm was soon set off by American automobile parts manufacturers across the country. One such manufacturer, the Modine Manufacturing Co., charged that the jobs of some 500 workers who produce automobile radiators at Modine's plant in La Porte, Ind.,

in my congressional district, were being threatened. I supported Modine's request that the Secretary of the Treasury issue a countervailing duty order pertaining to Canadian-made automobiles and automobile parts. Despite repeated requests, a countervailing duty order was never issued.

In December 1964, I am advised, as a direct result of the Canadian duty remission scheme, the production of automobile radiators at the McCord Corp. plant in Plymouth, Ind., in my congressional district, was transferred to the McCord plant in Orangeville, Ontario. Approximately 65 people lost their jobs. Modine warned again that the jobs of 500 workers at its La Porte plant continued to be threatened. Our Government again failed to act.

Officials of the Department of the Treasury and the Department of State claimed that the issuance of a countervailing duty order would precipitate a series of actions and responses, retaliation and counter-retaliation that would not solve the problem and would embitter relations between our countries. However, since a countervailing duty order was never issued, I suggest that this analysis of what might have happened is no better than a guess.

The United States-Canadian agreement to abolish auto tariffs between the two countries was signed January 16 by President Johnson and Canadian Prime Minister Lester Pearson. One week later Modine Manufacturing Co. announced that it might establish a plant in Canada in order to protect its share of the radiator market and that it was investigating sites in Canada. It is apparent from this development that Modine and other American automobile parts producers did not at all consider the new agreement to be a solution to their problem. They continued to warn of the possible loss of American jobs.

Mr. Chairman and members of this committee, most of us agree that probably our Nation's No. 1 economic problem is unemployment. I am particularly sensitive about unemployment in my own congressional district because it was only 16 months ago that the Studebaker Corp. closed the gates of its automobile plant in South Bend, Ind., leaving over 7,000 workers jobless. We have been able to lower the unemployment rate since the Studebaker closing, but it is still too high and is still above the national average.

In spite of assurances from the administration that the United States-Canadian agreement will be mutually beneficial, the Modine Co. continues to contend that it may have to establish a plant in Canada. Possibly 500 jobs are at stake in La Porte, Ind., alone. I believe it is the responsibility of this committee to attempt to find out where the truth lies among these divergent views. I strongly believe that it is the responsibility of this committee to satisfy itself that this agreement will not, in fact, result in the export of American jobs to Canada.

During my years in Congress I have consistently supported free trade legislation and the general relaxation of tariff barriers. I will continue to do so. But this agreement should certainly not be mistaken by anyone as an agreement promoting free trade. Only certain Canadian manufacturers, including the subsidiaries of American automobile manufacturers, are eligible for duty-free imports, and then only if they agree to increase their production and to abide by other Canadian Government guidelines.

Moreover, we hear on high authority that this agreement comes to Congress with strings already attached in the form of private com-

mitments. We hear this from Canadian Minister of Industry C. M. Drury, who announced that the new trade program "consists of firm assurances of individual Canadian motor vehicle producers that they will be able to gain a fair and equitable share of the expanding North American market."

We also hear about these private agreements from the president of Chrysler, Canada, Ltd., who said, "Now we get to the last, and perhaps the toughest of these commitments. This is the one where the manufacturer agrees to increase his annual level of Canadian value added by a given, and very substantial, amount during the next 3 years. Each manufacturer's undertaking in this regard is confidential, known only to himself and the Government."

I submit that these commitments should not be confidential to the Committee on Ways and Means, to Congress, or to the American people.

We are so far lacking adequate answers to two important questions about this agreement:

(1) To what extent will this agreement result in exporting U.S. automobile parts manufacturing firms; and the jobs of American workers they employ, to Canada?

(2) What are the private commitments made by American-owned automobile manufacturers in Canada to the Canadian Government?

Until and unless satisfactory answers to these questions are forthcoming, I urge the Committee on Ways and Means to report unfavorably on H.R. 6960.

Mr. Chairman, I appreciate the opportunity to submit this statement.

Mr. KING. Thank you very much for your statement. Are there any questions? If not, Mr. Brademas, we appreciate your being with us today.

We are pleased to have with us today the Honorable Frank A. Stubblefield, from the First Congressional District of Kentucky. It is a pleasure to welcome you here today, Mr. Stubblefield, and you may proceed as you wish.

STATEMENT OF HON. FRANK A. STUBBLEFIELD, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF KENTUCKY

Mr. STUBBLEFIELD. Mr. Chairman, I appreciate this opportunity to present to you and the other members of the House Ways and Means Committee my views in opposition to H.R. 6960, a bill to provide for the implementation of the "Agreement Concerning Automotive Products Between the Government of the United States and the Government of Canada."

Although it is too early to predict just what effects this agreement will have upon auto parts manufacturers in the United States as a whole, either as to short-term or the longer-term business results, this bill will, I am certain, have an injurious effect on the auto parts manufacturers in my State of Kentucky. As the bill stands, I foresee harmful results accruing to a manufacturer of original equipment. If, as has been proposed, the act is amended to apply also to manufacturers of replacement parts, the effect will be even more serious. I refer particularly to the Modine Manufacturing Co. plant which is the third largest employer in the city of Paducah, Ky., which is in my district. Currently this firm employs 450 people and has an annual

payroll of over \$2 million. It manufactures original and replacement radiators, among other products, for the motorcar industry.

In addition to an annual payroll in excess of \$2 million, Modine contributes a large share of the tax revenues on which a city such as Paducah must rely in order to survive. Moreover, the revenues flowing from Modine's Paducah plant are the lifeblood of countless merchants of the city. Many businesses depend in major part on Modine's continued existence. Were Modine to shut down and move to Canada, these businesses would also have to close. It is not necessary to spell out the chain reaction which would be started by the removal of the Modine contribution from Paducah's economy. Already an area of moderate unemployment, overnight the city would move high on the list of heavy unemployment areas and suffer the fate which is the unfortunate lot of all such areas in the country.

If under the agreement only original parts are to be considered, then what is to prevent a Canadian manufacturer simply supplying such at lower cost since he is that much closer to our large automobile manufacturing plants in and near Detroit and has significantly lower transportation costs. In that event this company in Paducah will lose a substantial percentage of its production with a seriously adverse impact on the economy of that city.

If the agreement is expanded to include replacement parts and excludes independent manufacturers of replacement parts from the Canadian market, or allowed into the Canadian market only on a basis less favorable than that for new parts designed for vehicle production, I foresee even more serious results. It will be most serious because of the extra productive capacity that is sure to be built in Canada to take care of a market that has suddenly expanded 2,000 percent. It is doubtful whether this company in Paducah can survive such a competitive eventuality.

Mr. Chairman, this agreement might result in severely restricting the competitive capability of many of our smaller independent auto parts manufacturers. Many of these industries are in the mainstay of the towns where they are located. Before this agreement is implemented, I suggest that a comprehensive survey be made as to the possible effect it may have on the future of our smaller independent auto parts manufacturers.

Mr. KING. Are there any questions? If not, we wish to thank you for coming here today.

Mr. McCauley.

It is nice to see you, Mr. McCauley. The committee remembers well your services to them.

Mr. McCAULEY. Thank you.

Mr. KEOGH. In which sentiments the acting chairman is joined by all of us.

Mr. McCAULEY. Thank you very much, Mr. Keogh.

Is it possible that our lawyer, Mr. Greenberg, sit with us at the table?

Mr. KING. Very often it is recommended.

STATEMENT OF ALFRED R. McCAULEY ON BEHALF OF THE INDUSTRIAL COMMITTEE OF PADUCAH, KY.

Mr. McCAULEY. Mr. Chairman and members of the committee, my name is Alfred R. McCauley and I am with the Washington law firm of Graubard, Moskowitz, and McCauley. We appear here today in behalf of the Industrial Committee of Paducah, Ky., a committee composed of representatives from the principal business, professional, and civic organizations in the Paducah area.

Mr. Chairman, I ask permission to have inserted at this point in the record the names of the members of the industrial committee and the organizations they represent.

The CHAIRMAN. Without objection.

(The document referred to follows:)

THE INDUSTRIAL COMMITTEE OF PADUCAH, KY.

Chairman, Frank R. Paxton

COMMITTEE REPRESENTATIVE AND ORGANIZATION

Gus Hank III, American Legion Post 31
 Edwin E. Ellis, Associated General Contractors
 Virgil R. Harris, Automotive Trades Association
 Ed Davis, Chamber of Commerce
 Dick Fairhurst, Greater Paducah Industrial Development Association
 Sam Sloan, Jr., or David Long, Junior Chamber of Commerce
 Warren Eaton, Kiwanis Club
 William H. Hicks, Kiwanis Club (South Side)
 Edward R. Hulett, Kiwanis Club (West Side)
 Wilfred Powers, Lions Club
 Asa Long, McCracken Oil Men's Club
 Joe Powell, Night Lions
 Charles Record, Optimist Club
 Lawrence Albritton, Paducah Association of Druggists
 Floyd Beard, Paducah Association of Insurance Agents
 John R. Anderson, Paducah Association of Life Underwriters
 Leon Searles, Paducah Electric Plant Board
 Jimmy Rieke, Paducah-McCracken Co. Growth Council
 George Sexten, Retail Merchants Association
 Morris McBride, West Kentucky Home Builders
 Fred Amonett, West McCracken Lions Club

Mr. McCAULEY. The industrial committee's concern is with the economic well-being of the Paducah area which depends in large part on the continued operation of the Modine Manufacturing Co. plant in Paducah.

Modine—which produces motor vehicle radiators among other products, is Paducah's third largest employer with an annual payroll in excess of \$2 million.

The industrial committee sees in the whole program of which H.R. 6960 is a part a decided threat to the existing radiator markets of the Modine Manufacturing Co. and, accordingly, a threat to Paducah's economy. For this reason we are here today to voice our objection to passage of this bill.

PRIOR THREAT TO PADUCAH'S ECONOMY

Paducah's citizens have in the past expressed to the Federal Government their concern about threats to Paducah's economy. Last summer, as the committee members know, 10,000 Paducah citizens—

almost one-third of the population—exercised their constitutional right of petition and asked the President and the Members of Congress to use their good offices to see that the Paducah Modine plant was protected from a most unfair trade practice—the subsidization of Canadian motor vehicle and motor vehicle parts production and exports by the Government of Canada. Paducah's citizenry as one asked their Government to take action on a formal petition filed by the Modine Manufacturing Co. in April of 1964 which asked that the Canadian subsidy scheme be neutralized and offset by the imposition of countervailing duties by the Secretary of the Treasury, as required by section 303 of the Tariff Act of 1930.

BASIS OF PRIOR SECTION 303 ACTION

This April 1964 petition, endorsed by thousands of Paducah's citizens, charged that Canada's subsidy scheme—started in 1962, enlarged in 1963, and in full bloom in 1964—constituted an unjustified illegal economic invasion of the United States in violation of the provisions of section 303. The petition established that the Canadian Government's scheme of remitting duties paid on imports into Canada, conditioned upon increased exports of Canadian-made vehicles and parts, was in fact and in law the payment of a bounty or grant which section 303 of our tariff act required to be countervailed.

SECTION 303 PREVENTS UNFAIR TRADE PRACTICES

At the outset, Mr. Chairman, a review of section 303's purposes and the wisdom reflected in its provisions is in order. Section 303 is, and for over 60 years has been, a very important part of the body of U.S. law whose purpose is to protect U.S. trade and commerce from unfair methods of competition and unfair acts. Section 303 is aimed at one widely recognized and widely condemned unfair trade practice—the subsidization of production and export by foreign governments.

Like its companion statutes, the antitrust laws, the Federal Trade Commission Act, the Antidumping Act, and others—section 303 reflects the determination and purpose of Congress that trade in the United States shall be fair and not rigged by artificial unfair practices. The section has no other purpose. It neither compels nor authorizes governmental intervention where competition is open and aboveboard.

So it is crystal clear that section 303 is not a protectionist vehicle and no one can rightfully claim that its imperative is protectionist oriented. That no U.S. industry, firm, or worker shall have to compete against subsidies paid by foreign treasuries is its sole philosophy and that all such subsidies shall be neutralized by countervailing duties is its single command.

And the resolve of Congress that U.S. commerce and trade shall be immunized against such unfair acts of foreign governments is shared by all other responsible trading nations. In article VI of the General Agreement on Tariffs and Trade, the contracting parties recognize that subsidization of production and export of goods is unfair and that each and every affected country has the right to impose countervailing duties to offset such subsidization.

So a complaint against the unfair practices of the Canadian Government cannot be scored as a "protectionist pitch."

DISPOSITION OF PRIOR SECTION 303 PROCEEDING

April 1964 complaint under section 303 was not officially answered until January 19, 1965, though it became apparent in the late summer of 1964 that no action under section 303 would be forthcoming. For it was at that time that reports began to appear both here and in Canada that the United States and Canada were seeking a trade agreement. These reports, which continued throughout the fall and early winter, made it abundantly clear that the purpose of the sought-after agreement was to make it possible for the Secretary of the Treasury to avoid having to carry out his responsibility under section 303.

The formal agreement was signed, as the committee knows, on Saturday, January 16, 1965. On Monday, the 18th, the Secretary of the Treasury decided that amendments on the 1962-64 Canadian tariff program, promulgated the previous Saturday afternoon in Ottawa immediately following the signing of the agreement, removed the necessity for action under section 303. On Tuesday, the 19th, the Secretary announced his decision to this effect. So the agreement's purpose was achieved.

We believe that the way by which the complaint of Modine Manufacturing Co. was disposed of warrants special attention by this committee: the congressional mandate that Canada's unfair act of subsidization of its production and export of motor vehicles and parts be dealt with exclusively under section 303 was ignored in favor of an executive agreement "solution" to the problem. This circumvention of the command of Congress must concern this committee in the light of its responsibility to the House of Representatives in matters concerning the administration of the customs law.

If the process here followed is authorized, and we find no such authority, then a forthright statement of the new U.S. policy on foreign production and export subsidies must be made for the benefit of those who heretofore read section 303 as the whole law on this subject.

Our new policy needs clarification. Section 303 is presently being invoked against subsidized exports of wool tops from Uruguay, almonds from Spain, butter from Denmark, and spirits from Ireland, of all things to name just a few of the outstanding countervailing duty orders. Was it because a neighboring foreign country—Canada—was guilty of the unfair practice that section 303 was not involved here? Can we assume that if Canada subsidizes production and export of other products that section 303 will not be used? Or was section 303 not employed because a really meaningful segment of trade was involved? Is this the new test: The larger the segment of trade involved, the less chance that section 303 will be used?

We submit that the Congress and the people are entitled to an answer.

THE TRADE AGREEMENT OF JANUARY 16, 1965, IS NO ANSWER

The members of the Paducah Industrial Committee carefully watched developments regarding the disposition of the Modine Manufacturing Co.'s petition. A few years ago Paducah was severely jolted

by the closing of a large electronic plant and the community is presently adjusting to a loss of 700 jobs at an atomic energy facility. Paducah's citizens having fresh experience of the trauma caused by such events, were vitally concerned with the Canadian threat to the Paducah economy and the way in which our Government met this threat.

As soon as we were able to obtain copies of Canadian Orders in Council of January 16, 1965, which implemented the agreement insofar as Canada is concerned, as well as statements of Canadian officials and others which one might call the legislative history of this new program, we began a study of the executive agreement solution to Canada's unfair raid on the U.S. market. We studied these documents and statements at great length and finally made our judgment as to the nature of the solution to the prior plan's evils. Our conclusion was, and is, that the new program now in effect regarding Canadian exports of motor vehicles and motor vehicle parts to the United States is no different in substance from the scheme which it replaced on January 18, 1965. We concluded that Canada is still subsidizing production and exports of vehicles and parts.

Accordingly, on March 29, the industrial committee of Paducah, Ky., convinced that there was still a threat to the continued existence of the Modine Manufacturing Co. plant, filed a petition with the Commissioner of Customs, Treasury Department, requesting the issuance of a countervailing duty order under section 303. We have previously filed copies of this petition with the committee together with copies of a memorandum in support of the petition.

Mr. Chairman, I will turn now to the trade agreement, the ancillary private agreements between the Canadian auto producers and their Government, and to H.R. 6960. We submit, Mr. Chairman, that this whole package presents a far greater threat to Paducah's economy than that which we faced prior to January 16 last.

THE TRADE AGREEMENT OF JANUARY 16, 1965, WILL NOT STIMULATE TRADE

The fact that the January 16 agreement's primary purpose was to get the Secretary of the Treasury "off the section 303 hook" is confirmed by the fact that the agreement proper will not enhance United States-Canada trade in automotive products one iota.

In the first place, reducing U.S. duties on Canadian-made vehicles and parts will not stimulate their exportation to the United States. Canadian vehicles prices are far in excess of U.S. prices. And the price discrepancies so far exceed the level of U.S. tariffs that even the complete elimination of the U.S. rates of 6 and 8½ percent will not bring Canadian prices into competitive line. Indeed, Canadian prices are so high, that in the 1962-64 Canadian subsidy scheme, Canada found it necessary to support them with a 25-percent subsidy in order to make them competitive with the U.S. market.

Whatever freeing up of the trade the other way—from the United States to Canada—is possible then is effectively squelched by the terms of the agreement. Duty-free treatment for U.S.-made vehicles and parts is a privilege accorded to a very few "qualified" Canadian vehicle producers. A Canadian producer "qualifies" if he—

1. Maintains or better his Canadian production—Canadian sales ratio of the base year; and

2. Maintains or betters the levels of Canadian parts and labor he used in the base year.

Note that qualification depends on meeting or bettering "base year" records. The base year, Mr. Chairman, is the 1964 model year, a year when the prior export subsidy scheme was in full bloom. The illicit gains made by Canadian companies under the unfair subsidy scheme are solidified by the agreement and are used as the takeoff point for bigger and better things in the future.

Given the need to maintain these high base year levels, a significant rise in Canadian consumption of U.S.-made parts or imports of U.S.-made vehicles into Canada cannot occur. Our agreeing that Canada's duty-free treatment of U.S. products should only be extended to a few companies and then only when Canadian production exceeds the abnormally high, illicitly obtained levels of the 1964 model year, serves to bar any meaningful increase in U.S. exports.

THE PRIVATE AGREEMENTS

Thus, there will be no increase in trade as a result of this formal agreement. But if this is so, one must ask how the widely proclaimed objective of "rationalization" of the North American vehicle market will be accomplished. On many occasions we have heard of this common objective of the United States and Canada. "Rationalization" of the North American market has been pointed to as the "official" reason the two countries entered into this agreement.

What is this "rationalization" which is sought? As officially explained, Canada consumes about 7 percent of North American automotive products output while it produces 4 percent of such output. "Rationalization" is the process of bringing Canada's production into line with its consumption.

Since it is an established fact that the disparity between Canadian consumption and production is due to heavy imports from the United States, the sought after "rationalization" can be, and should be, defined another way: The transfer to Canada of enough U.S. products—U.S. production so that Canada's heavy import of U.S. automotive products will offset by a greater output a Canada of automotive products for use in U.S. vehicle production. This is the real reason for this whole new program. What Canada set out to do under the 1962-64 subsidy scheme—obtain a larger share of the U.S. market—is the primary objective of the program before this committee today.

This "rationalization" will take place, this shift of American production to Canada will be realized, not because of anything resulting from the formal agreement, but because the auto companies of Canada have agreed with the Canadian Government that it will occur. Indeed, Canada has been assured by its auto companies that in just 3 years—by 1968—output of vehicles and parts in Canada will be increased by over \$250 million. And this increment to Canadian output will be over and above normal growth. In percentages, this additional output will amount to an increase in Canadian production of vehicles and parts of over 30 percent over 1964 levels.

We have not seen these private agreements we did not know they were going to be made public today, Mr. Chairman, but they have been the subject of extensive public comment. I will quote just a few authoritative sources which, put together, show clearly the nature of

these private agreements and the fact that they, not the formal agreement, are the real warp and woof of this new program.

Canada's Minister of Industry had this to say about these private agreements:

The second major feature of the program consists of firm assurances of individual Canadian motor vehicle producers that they will be able to gain a fair and equitable share of the expanding North American market.

By the 1968 model year, production in Canada of vehicles and parts going into their manufacture should be expanded by about one-third over their present level.

This is in addition to normal growth. Altogether, it is expected that the expansion over the next 3½ years should amount to several hundred million dollars annually of the new Canadian production.

The Canadian automotive parts industry will have * * * vast new opportunities to sell its products throughout the vast U.S. market.

The key point of the whole program is that automotive and component manufacturing in Canada will take place within the framework of an assured expansion of production and new trading opportunities.

News release communique, Department of Industry, Ottawa, January 15, 1965, pages 2-3, 8-9.

The president of Chrysler, Canada, a party to one agreement said this:

Now we get to the last, and perhaps the toughest of these commitments. This is the one where the manufacturer agrees to increase his annual level of Canadian value added by a given, and very substantial amount, during the next 3 years. Each manufacturer's undertaking in this regard is confidential, known only to himself and the Government.

Actually, what it represents is the proportionate share of the trade imbalance that can be attributed to that manufacturer. But when you add them all together, they come to a total of \$260 million for the automotive industry in Canada.

And that is not all. We have 3 years to boost our Canadian production—collectively—by this amount. More important, once we get it up there, we have to hold it there on an annual basis.

Address by Ron W. Todgham, president, Chrysler, Canada, Ltd., at the annual meeting of the St. Thomas Board of Trade, St. Thomas, Ontario, January 26, 1965.

Assistant Secretary of State, G. Griffith Johnson, said this about these agreements:

We thought it ought to be a matter of record that there have been such conversations between the Canadian Government and each of the Canadian automobile manufacturers, and that the results of these conversations, that is the letters of assurance, or statements of intentions—are an important part of this agreement as a whole from the Canadian standpoint. We thought that ought to be a matter of record.

Hearings before a subcommittee of the Senate Committee on Foreign Relations, "Automotive Products Agreement Between the United States and Canada" (89th Cong., 1st sess., February 10, 1965, at p. 24).

Finally, we have an apparent eyewitness account of the negotiations leading up to the conclusion of these private agreements:

At one stage in the negotiations, the Canadians had very definite ideas of the way undertakings by the companies could be policed. They involved, however, measures which might have implications for American industry. Rather naively we asked that if this should become necessary, the U.S. Government would look the other way. The Americans, quite reasonably, refused. As it stands, a big weakness in the plan is that there may be no effective way of holding a company to its undertaking if it decides to deliberately default. It is quite possible for a company to qualify for free entry under the order-in-council and at the same time fall short of its undertaking. The general laws of contract are being explored as one possible means of bringing the culprit to task,

but if the Canadian officials really know how they would handle such a situation they are keeping their own counsel.

Meanwhile the undertakings mean costly investment in plant, machinery, and equipment which is one reason being given why the saving of \$50 million in tariffs is not likely to be passed on to the consumer immediately. There has been some criticism of the Government for not insisting that it be done, but the right of the individual companies to use this interest-free money rather than borrow is an integral part of the agreement.—(The Ottawa Letter: "Federal Government Activities in Relation to Business," Jan. 25, 1965, at p. 8313.)

Here, then, Mr. Chairman, is the real heart of this new program. In exchange for duty abatement amounting to \$50 million per year, Canadian auto companies have promised to step up their production and purchases by over \$250 million per year. The combination of the duty abatement by Canada and the removal of U.S. tariffs will make it economically feasible for this additional \$250 million in output to be exported to the United States.

I said previously that the Paducah people feel that this new program is even worse than the program it displaced. That their fears are well founded is illustrated by the dollars-and-cents aspects of the two programs. Under the 1962-64 scheme, Canada sought an increase in exports of \$150 to \$200 million per year. Under the new scheme, Canada is assured an increase of \$250 million, so at best, we are \$50 million worse off, and at worst \$100 million worse off.

THE ROLE OF H.R. 6960

What part is the bill before the committee intended to play? We submit that it is the icing on the cake. In addition to the \$50 million which Canada will contribute to subsidize and support its vehicles and parts exports, the United States will contribute several million dollars in uncollected duties. The combined Canadian and United States subsidies will do the trick and insure that the whole scheme works. Works in what way? To shift U.S. production and jobs to Canada—to "rationalize" the North American vehicle market.

Other features of H.R. 6960 are disturbing: While for the reasons I have stated we are wholly opposed to H.R. 6960's passage, there are several specific features of this bill which give us particular concern.

If H.R. 6960 is passed, it will no doubt be construed as a ratification and approval by Congress of the commitments made by the United States in the formal trade agreement. One such commitment—article I—binds the United States to "avoid actions which will frustrate the achievement" of the agreement's objectives. Approval of this commitment may be construed as an implied repeal of the applicability of the provisions of the Antidumping Act, 1921, section 303 of the Tariff Act of 1930, section 337 of the Tariff Act of 1930, and several other statutes to the articles covered by the bill.

As the committee knows, section 303 of the Tariff Act of 1930 applies only to dutiable merchandise. If H.R. 6960 becomes law, then section 303 may be judged inapplicable to the articles which would be made free of duty by Presidential action pursuant to the bill and the pending investigation of the Treasury Department under section 303 into the Paducah Industrial Committee's petition of March 29 might be rendered moot.

We need not point out the historic policy of the Congress not to divest prior statutory rights given to, and in the process of being exer-

cised by, U.S. citizens. The industrial committee intends to prosecute its section 303 case to the fullest extent permitted by law. We ought not, as a matter of equity, be barred either in the Treasury Department or the courts from carrying out our resolve.

Moreover, Congress ought not to grant a special exemption from section 303's mandate for Canadian products. If it is important to the present program that such an exemption be made then a proper procedure would be to suspend consideration of H.R. 6960 pending a complete review of section 303 and the age-old policy reflected in its provisions.

We respectfully urge the committee, if it is of a mind to recommend H.R. 6960's passage, to put into the bill a provision which will preserve section 303's applicability to the articles covered by the bill.

THE PASSAGE OF H.R. 6960 WILL NOT BE IN THE NATIONAL INTEREST

Mr. Chairman, the evils of the new automotive products scheme of Canada are more pronounced than those which marked the 1962-64 program. The new scheme, like its predecessors, is a cunningly devised raid on the U.S. market to be accomplished by employment of undeniably unfair means. Canada is after U.S. production and jobs and does not care how this piracy is accomplished.

When apprised of the real character of the Canadian scheme of 1962-64, our officials mistakenly concluded that section 303's mandate was not the answer, but that some other more "constructive" solution, as they put it, must be sought. I do not question their sincerity of purpose, nor do I fail to appreciate why they sought what they felt was a better way out. But they were dead wrong. Whatever would have resulted from our officials telling the Canadians that U.S. law must be followed and the subsidy must be stopped would have been far better than what we are facing today.

For their initial mistake has been compounded now. The Canadians not only obtained our assent to their keeping their ill-gotten gains derived in the 1962-64 period, but they also cajoled our officials into agreeing to a new program which would outdistance the old by \$50 to \$100 million in additional, and still tainted, gains.

All along the way, and throughout the course of these hearings, U.S. spokesmen lamented the fact that following section 303's mandate could lead to a trade war. There will be retaliation and counterretaliation, they said. There may have been, though I doubt it. But if we had neutralized Canada's unfair act and it had acted against U.S. products or companies as a result, isn't it important that Canada could not have defended its action either to the United States or to the rest of the world? Isn't it important that Canada's action could unquestionably be scored as wholly arbitrary, as bearing no color of right? And isn't it important that any action of the United States in response to Canada's irresponsible and unwarranted act would be just and right and would be seen as such by all of the trading nations of the world? We think these considerations are very important.

We are now at the penultimate stage of this absolutely incredible course of events. The Congress is being asked to ratify and approve all the errors made along the way. You are asked, moreover, to perfect Canada's nefarious scheme of pirating away U.S. production and jobs, and retroactively to bless and forgive their prior illegal actions.

Then you are requested to provide assistance for those U.S. firms and workers whose production facilities and jobs will be "rationalized" across our northern border because of this joint subsidy arrangement. I need not remind the committee of the proper use of adjustment assistance and of the reasons why it does not fit here. Adjustment assistance fits well into a national trade policy which seeks the liberalization of foreign and U.S. tariff barriers and which sees as a consequence of such policy the displacement of some U.S. firms and workers.

But the adjustment assistance provisions of H.R. 6960 are pointed toward a different thing entirely. There will be no gain here for the national economy, nothing to offset the impact of subsidized Canadian imports on U.S. firms and workers. There will be a wholesale transfer of U.S. production to Canada, and with this transfer there will go millions of dollars in U.S. capital and thousands of U.S. jobs. As far as benefits to the United States are concerned, there are none.

Another committee of Congress has been told by a State Department official that we had to "recognize that the Canadians had a national objective of increasing the level of manufacturing employment." That is why we could not invoke section 303 and why we had to negotiate and conclude this trade agreement. Our own objective of higher employment is not even paid lipservice. But worse than that, we will help Canada reach her aim by making possible, indeed encouraging, the transfer of U.S. jobs to Canada. So not only are we ignoring our own prime target of creating more jobs in the United States, but we also are set to aggravate our own unemployment problems.

Mr. Chairman, we submit that it is neither proper nor moral for our Government to ask a U.S. citizen to give up his job to a foreigner where we cannot point to one tangible benefit which the country as a whole will gain in exchange for his sacrifice. The worker in Paducah whose job will be taken by a Canadian before too long, unless something is done to place this whole matter which you are studying today in proper perspective, should not be asked to contribute his job under these circumstances, and offering him a relief check for a few months and a chance to learn a new trade is not only an insult, but it borders on humiliation of a U.S. citizen by his Government.

Mr. Chairman, there are many other things which ought to be said about the program you are studying today, but time does not permit me to more than mention some of these matters. The adjustment assistance provisions of the bill are completely at odds with the philosophy and the mechanics of the adjustment assistance provisions of the Trade Expansion Act of 1962. For example, adjustment assistance can be given under the bill where there is no increase in imports at all. This is a radical departure from present thinking about the proper role of adjustment assistance and its precedent-setting implications will not, I am sure, escape the attention of the committee.

The new program will adversely affect our international payments account by shifting trade from the plus side to the minus side of our international trade ledger. Also, the new program is an abandonment of our historic, postwar policy of multilateral—never bilateral—trade agreements. In addition, the procedure followed here of concluding a trade agreement and then seeking "enabling" legislation is foreign to the historic approach whereby the Executive has sought congress-

sional authority and advice before entering into a trade agreement. The record is bare of any statement of reasons for the extraordinary procedure followed herein; we are not told why prior congressional participation was not possible in this instance.

These are important considerations which we respectfully submit need to be reviewed in depth by this committee before it takes action on H.R. 6960.

Finally, the auto pact with Canada violates our most-favored-nation obligation in the GATT accord. Strange as it may sound to the ears in this room today, the Congress now can cure a U.S. GATT violation by failing to adopt H.R. 6960. While it won't do so, I will.

I urge that this committee report unfavorably on H.R. 6960 and thus shield our State Department from the deplorable and embarrassing consequences, so often voiced in this room by its spokesmen, which flow when the United States violates its GATT obligations.

Mr. Chairman, I thank you and the other members of the committee for permitting me to appear here today.

The CHAIRMAN. Mr. McCauley, you made a very strong statement.

Any questions of Mr. McCauley, Mr. Betts?

Mr. BETTS. Mr. McCauley, you represent Modine. Is it an isolated case?

Mr. McCAULEY. I don't know of the facts of any other case. Paducah's interest stems from the fact that the Modine plant is the third largest in its area. We know what the facts are as to Modine. As to other producers, sir, I don't know that there are. I understand on the list of witnesses there are other people from this aspect of the question who might be able to shed some light on that.

Mr. BETTS. Well, your statement, I think, was a dramatic one.

Mr. McCAULEY. Thank you very much, Mr. Betts.

Mr. KEOGH. Mr. Chairman.

The CHAIRMAN. Mr. Keogh.

Mr. KEOGH. So long as we have reached this turn of events in the hearing today, I received and have been requested to put in the record a telegram from Mr. E. L. Schwarz of the EIS Automotive Corp. of Middletown, Conn. I ask that this be inserted in the record following interrogation of the witness.

The CHAIRMAN. Without objection that will be done.

(The document referred to follows:)

HOLLYWOOD, FLA., April 28, 1965.

Hon. Congressman EUGENE KEOGH,
House Office Building,
Washington, D.C.

HONORABLE SIR: This is in reference to House bill H.R. 6960.

We are one of the small independent auto parts manufacturers (employing 450 persons) which will be adversely affected by this bill, in addition to the competition we are getting from Canadian independent parts manufacturers.

Our Canadian volume has been reduced in the last few years, due to our inability to compete. Also more and more Canadian goods are coming into the United States, due to only 8 percent U.S. duty with the favorable Canadian dollar exchange of 8 percent, therefore the Canadian exporter has hardly more than the U.S. 8 percent excise tax attached to bringing goods into the United States, whereas we have to shoulder a 25-percent duty plus 11 percent tax, figured on top of duty-paid goods, to deliver our parts in Canada. The 8-percent exchange is an additional loss.

With the new proposed duty-free concessions to vehicle manufacturers, many complications will result in our not only losing more, if not all our Canadian market.

Pointing to the many relief clauses in this bill shows that there is an anticipation of what we are trying to say. Furthermore, the coming in of goods produced at lower cost in Canada with no duty burden, will seriously affect our U.S. volume.

General Motors, Ford, and Chrysler have in the past years shown tendencies to monopolize the aftermarket parts business, same as they have accomplished in the vehicle field. The fact that General Motors, Ford, and Chrysler in the last 4 years have completed their lines of fast-moving parts to include parts for each others' vehicles surely shows their intent.

Their gain in 1964 and 1965 car sales, and American Motors loss of volume, as well as Studebaker's almost extinction, is clear evidence of what they may do to the replacement part manufacturers, particularly the small ones.

We therefore respectfully plead that this bill should not be passed in its present form, which clearly gives the car manufacturers many advantages denied us.

Furthermore, the incoming of practically duty-free goods into the United States should be equalized to permit us to stay reasonably competitive in the Canadian market, as well as giving us a fighting chance in our home market against Canadian goods.

Respectfully submitted.

E. I. SCHWARZ,
EIS AUTOMOTIVE CORP., MIDDLETOWN, CONN.

The CHAIRMAN. Mr. Curtis?

Mr. CURTIS. I was very much interested in your statement and I was hoping that the witnesses from the auto companies appearing this afternoon would supply that. I have never heard this side presented before, I have never had an opportunity of looking into it to this extent.

(The following material was received by the committee:)

FORD MOTOR CO.,
Dearborn, Mich., May 6, 1965.

HON. WILBUR D. MILLS,
Chairman, Committee on Ways and Means,
Longworth House Office Building, Washington, D.C.

DEAR MR. CHAIRMAN: During the hearings on H.R. 6960 on April 28 and 29, 1965, and after the appearance of the Government representatives and the automotive manufacturers, several witnesses testified in opposition to the bill. The Ford Motor Co. herewith submits some brief comments on the testimony of the first of these witnesses, Mr. Alfred R. McCauley, representing the Industrial Committee of Paducah, Ky. A member of the Ways and Means Committee stated that he hoped the manufacturers would offer comments on the points raised by Mr. McCauley. The following discussion is limited to a few of his statements, and is not meant to imply agreement with either the balance of his remarks or with additional comments offered later by other opposition witnesses.

Mr. McCauley's statement is a strong one, full of colorful phrases such as "cunningly devised raid"; "nefarious scheme of pirating away U.S. production"; "irresponsible and unwarranted"; "bearing no color of right." These terms, apparently applicable principally to the Canadian Government, seem curiously inappropriate when addressed to a friendly nation that is the largest importer of U.S. automotive products—a nation that bought \$660 million worth of such products in 1964, over 20 percent more than in the prior year and more than 10 times the value of her automotive exports to the United States. Our concern, however, is not with Mr. McCauley's style, but with some of his observations and conclusions about the agreement and the implementing legislation.

1. *The relevance of the U.S. countervailing-duty statute (sec. 303, Tariff Act of 1930).*—Whether or not the old duty forgiveness plan constituted a "bounty" under section 303 is uncertain. There is no question, however, that Congress can place Canadian automotive exports beyond the application of section 303 by simply making them duty free. This section is designed to assure that any tariff protection granted by Congress to any U.S. industry is not frustrated by the actions of foreign governments. If Congress withdraws such tariff protection from a U.S. industry that no longer needs or wants it, the affected industry clearly has no further need for the secondary protection afforded by section 303.

2. *The effect of the agreement and the supplemental assurances on United States-Canadian trade.*—Mr. McCauley concludes that “the sought-after ‘rationalization’ [is] the transfer to Canada of enough U.S. production so that Canada’s heavy import of U.S. automotive products will be offset by a greater output in Canada of automotive products for use in U.S. vehicle production.” This is an incorrect assessment. Under the new agreement, and under any reasonable assumptions about future growth rates, the exports of U.S. automotive products to Canada will continue to exceed, by hundreds of millions of dollars, the exports of Canadian automotive products to the United States. There is no evidence to support an allegation that, under the agreement, Canada’s 4-percent share of North American automotive “content” or “value added” will rise to the level of its 7-percent share of North American automotive consumption.

To be specific, Ford of Canada has given assurance that its Canadian value added will be increased by \$69 million by 1968. This figure represents about 1 percent of Ford’s 1964 U.S. “value added.” Our U.S. “value added” will rise far more than 1 percent in 1965 alone, compared with 1964. Thus, even if we assume for the sake of argument that the \$69-million-by-1968 commitment will replace U.S. value added, the outlook is not for a reduction in U.S. production and employment, but simply for Canada’s securing a modestly larger share of the overall expansion that will take place between 1964 and 1968. Finally, as the “rationalization” of production begins to achieve its objective of lower costs and therefore a large total North American automotive market, it seems obvious that total market growth will be greater than would otherwise be the case—while the committed increase in Canadian value added remains at its fixed level.

3. *Alternatives to the agreement.*—Mr. McCauley doubts that a trade war would result from failure to implement the agreement. He suggests that even if one should materialize, the rest of the world would somehow leap to the defense of the United States. It is difficult for us to imagine what actions these nations would be expected to take to reestablish the jobs of the U.S. workers who built \$660 million worth of automotive exports for the Canadian market in 1964. The record is clear with respect to what has happened in other countries where severe automotive trade restrictions have been imposed in recent years. Our exports have dried up, and no national or international group has been able even to propose effective countermeasures. Mr. McCauley’s optimism on these points might not be sufficient to reassure the thousands of American workers whose present jobs are based on our automotive exports to Canada.

We are taking the liberty of forwarding a copy of this letter to each member of your committee.

Sincerely,

FRED G. SECREST,
Vice President-Controller.

Mr. CURTIS. What does the Modine Co. manufacture?

Mr. McCAULEY. Automotive radiators.

Mr. CURTIS. Is it both in what they call the parts and the replacement parts fields?

Mr. McCAULEY. It is primarily in the OEM market, the original equipment market. That is another term.

Mr. CURTIS. Is labor organized in the Modine plant?

Mr. McCAULEY. Yes, sir, it is organized.

Mr. CURTIS. Under the United Auto Workers?

Mr. McCAULEY. I understand primarily it is UAW.

Mr. CURTIS. You will be interested to hear the United Auto Workers witness tomorrow. Do you know what your people representing the local have to say on this?

Mr. McCAULEY. I do not know, sir.

Mr. CURTIS. I was deeply disturbed about what you have pointed out when I was visited I might say by the State Department representative—incidentally, let me put this on record.

I don’t appreciate the State Department and others in the administration coming to my office as a member of this committee ahead of

time and giving me information that is supposed to be for me alone. I regard this committee forum as open and public. If they have anything to say, let them say it here so that those who disagree with them will have an opportunity to disagree with them.

I am deeply disturbed about the techniques employed by the executive branch. They are in effect lobbying with Federal funds and they can present their case just like a citizen and others have to present their cases.

Incidentally I notice I have got an appointment this afternoon with Treasury Department representatives re duty-free exemption. They are just like a tourist who would try to lobby me on that particular thing.

I don't mind being lobbied, in fact I welcome it, but I say let's have the Federal officials abide by the law which says they cannot lobby with Federal funds. Let them state their case openly before the committee.

There are a lot of things that your testimony suggests to me that I am going to try to examine a little more deeply and try to get a better picture of. The one thing that stands out in my mind now is that the testimony of all of the companies is that it would be Canadian production that would gain, but your testimony indicates that it is a share of the U.S. market that seems to be at stake here.

Am I correctly interpreting you?

Mr. McCauley. Yes, sir; I think I read them that way, too. I think the important thing, here, in talking again I have not been party or privy to neither the governmental negotiations nor the private negotiations, so like Will Rogers or whoever said it, the only thing I know is what I read in the press and what I can get hold of.

Now the Canadian Minister of Industry indicated there would be a good guarantee, which is a perfectly good word for the assurance, to Canadian producers of a quarter of a billion dollars of extra production.

That is over and above the normal growth.

Mr. CURTIS. Yes, but now growth of what, the Canadian market?

Mr. McCauley. The growth of the Canadian market; yes, sir. Now taking the figures that were given today, and I might say here they are at variance with the only figure we have seen on projections, they came from what I would assume would be a legitimate source, a knowledgeable source, the president of Chrysler Canada in a speech in the latter part of January.

He predicted that the Canadian market, and he was talking I might point out at a time after this agreement had been entered into, that the Canadian people could look to a 800,000 car market by 1980. Now offhand he said by 1980, and I realize that could be 1970 as the gentleman from Ford indicated might happen.

As far as a quarter of a million dollars, that is a 30-percent there increase of output in Canada to be reached in 3 years. Now it is inconceivable that this could be consumed in Canada. That is the first point.

The second point is that all the parts that are made in Canada since the model production in Canada is essentially U.S.-type cars, the parts in the main are dedicated for use in U.S.-type vehicles.

Now Canada with this quarter of a billion dollars worth of production sitting around over and above normal worth has got to sell it

some place. We think they are going to sell it in the United States. The Canadian Minister of Industry said the new arrangement will give Canadian parts producers, as I said in my statement, vast new opportunities to sell in the vast U.S. market.

Mr. SCHNEEBELI. Will the gentleman yield.

Mr. CURTIS. Yes.

Mr. SCHNEEBELI. Mr. McCauley, on page 8 you say :

Reducing duties on Canadian-made vehicles and parts will not stimulate the exportation to the United States.

Does this not refute the statement you just made?

Mr. McCAULEY. Pardon, sir?

Mr. SCHNEEBELI. On page 8 you say :

Reducing duties on Canadian-made vehicles and parts will not stimulate their exportation to the United States.

Does that not refute the statement you just made?

Mr. McCAULEY. No, sir; it does not.

Mr. SCHNEEBELI. Does it not stimulate?

Mr. McCAULEY. No, sir. May I explain that?

Mr. SCHNEEBELI. Yes.

Mr. McCAULEY. The thrust of what I am saying here is that the formal agreement, if this is all we had to deal with, the formal agreement, and there was no other consideration involved, I will stick by that statement; that is, that Canadian products are priced much higher than the level of United States duties and their export into the United States would be economically unfeasible. What we are saying sir, is that the Canadian Government is giving the auto companies a 17½-percent subsidy in the form of removal of the Canadian tariffs and that that 17½-percent subsidy added to the elimination of the United States tariff will make it economically possible for the Canadians to sell in the United States market.

Mr. SCHNEEBELI. You just said that some of the overflow of their production would come then into the United States?

Mr. McCAULEY. Yes, I did.

Mr. SCHNEEBELI. Then you say the reduction of U.S. duties will not stimulate?

Mr. McCAULEY. Yes. I tried to explain that, Mr. Schneebeli. May I illustrate with a dollar and cents proposition here?

Mr. SCHNEEBELI. Yes, please do.

Mr. McCAULEY. If we take an article that is worth \$10 that cost \$11 in Canada and with the United States duty of 6 percent or 8½ percent, when the \$11 article came into the United States it would cost \$11.88. I agree with what I said here, this is what I am saying, that even if you eliminate that 6-percent U.S. duty so that now it does not cost \$11.88 but it cost \$11, it is still higher priced than the U.S. article.

Mr. SCHNEEBELI. I agree with you.

Mr. McCAULEY. All right. What I am saying now under the private agreements the Canadian Government has told the Canadian auto companies that if you sell that \$11 item in the United States—they have it in their formal orders in Council—we will give you 17½ percent rebate on parts that you must import to carry.

I am sorry. May I correct that? In many cases it is 25 percent on parts.

Mr. SCHNEEBELI. Thank you.

Mr. CURTIS. That was my understanding of these agreements.

Mr. McCAULEY. That is right.

Mr. CURTIS. That was my understanding of these agreements.

Mr. McCAULEY. That is right.

Mr. CURTIS. The allegation.

Mr. McCAULEY. That is right.

Mr. CURTIS. These private agreements contain them and I guess from the picture we have gotten of how the auto companies have done abroad, that we cannot count on production outside the North American Continent to take up this proposed growth.

I tried to get into that but it looks like there are similar setups in regard to this percentage of parts that restrict those.

This is a license approach.

Mr. McCAULEY. Absolutely.

Mr. CURTIS. I see it just as clearly and this is what I have been saying for several years now, that this administration has not been freeing trade, they instead have been substituting for the tariff device—which is probably the most lenient—with a license approach which has a tariff effect. To get your quota and your share you have to go along with the political bureaucracy. There are a lot of things I don't like about this. Mr. McCauley I appreciate your testimony.

Mr. McCAULEY. If I could just add one remark. We heard rather new definitions of what constitutes free trade yesterday and we have heard quite a bit of a new approach to the so-called rationalization concept.

Now I would say this much: That if indeed the Canadian industry is only producing 4 percent of what Canada consumes, and Canada consumes 7 percent of total North American output, then I would say, sir, that this was the exact expectation of the contracting parties when they entered into the GATT and that is that the most efficient producer would supply the markets and the least efficient producer would relinquish the markets.

Now we have heard a lot about this trade imbalance here.

I might just point out that in 1962 the United States exported to Canada approximately \$14 million in paper and paper goods. We imported \$700 million. If one wants to focus on a trade imbalance, I think that is it.

Mr. CURTIS. That is why this morning I asked questions along that line. You point out the change in our basic policy from multi-lateral agreement to bilateral agreements, and from a broad approach to an industry-by-industry approach.

Well, one other thing. I am satisfied that even though General Motors may not know what Ford's deal is and Chrysler's and vice versa the Canadian Government certainly knows that this deal is a neat little cartel setup, a market sharing device.

I want to say this for the record because if I am being unfair, if the three companies involved here were to be able to straighten me out, it would be very strange if they did not know what their proportionate share in this was. I suspect they do.

The CHAIRMAN. Any further questions?

Mr. BURKE. I would just like to make one observation here because apparently there was an inference that there is something unusual

about agencies sending their people down to the various congressional offices. This is nothing new with this administration and it was nothing new with the past administration or any of the previous administrations.

I always look forward to these people coming in because they give us additional information. Now there is always a question of whether this be lobbying or whether they are giving a Member additional information. Sometime it is timesaving. When you get this information you don't have to spend a half a day questioning a witness.

I don't think any member of this committee should ever feel any compunction that he is silenced or restricted from using that information publicly and in the open hearing. So there is nothing wrong; it is the usual procedure that has gone on for many, many years and will continue for many, many years after we are all gone.

Mr. CURTIS. Mr. Chairman, in light of the gentleman's reference he has made the record on his views, I have made the record on mine. I agree it is getting to be quite usual and I again submit that there is quite a difference between buttonholing individual members of this committee on a selected basis instead of giving their views openly before this full panel.

The CHAIRMAN. Any further questions of Mr. McCauley?

Mr. BURKE. Mr. Chairman, I also would like to point out that any visitors that come to a congressional office to call on and visit a Congressman come there with the permission of the Congressman.

The CHAIRMAN. Mr. Byrnes.

Mr. BYRNES. Mr. McCauley, you have heard some of my questioning of some of the other witnesses. You have probably gathered that I at least have the impression even aside from your statement that in the first instance the duty remission program was designed by Canada to offset its adverse balance trade in the auto area.

Mr. McCAULEY. No question about that.

Mr. BYRNES. This agreement is just a further extension of that: is it not? It is a substitute for the duty remission plan.

The basis on which the agreement is presented for approval is that if we don't come to some agreement in this matter of automotive trade between this country and Canada, that Canada can act and will act on a unilateral basis in a more restrictive fashion than would be the case under the agreement. Is there any reason that Canada could not act unilaterally that you know of?

Mr. McCAULEY. Of course when you talk about Canada as a sovereign power, of course Canada cannot act. I would think all the action I have heard would truly constitute a treaty. I would say further than that I think there is a basic reason—

Mr. BYRNES. Are they the type of violations we could ask for compensation?

Mr. McCAULEY. Yes, sir; I think they would be.

Mr. BYRNES. In order to get compensation under GATT we have to be able to show a dollar loss or a loss in trade?

Mr. McCAULEY. Yes, sir.

Mr. BYRNES. Do you really believe we can show that?

Mr. McCAULEY. I think we could. I think we could show a loss.

Mr. BYRNES. So then we would have the right under any of these actions that Canada might take to ask for compensation, either by

revisions in their trade program or we could impose higher duties in some other areas?

Mr. McCAULEY. That is right. We have either the right of taking commensurate action or asking for compensatory action.

Mr. BYRNES. It is your suggestion, I assume, in proposing that we should not approve this agreement, that we should let nature take its course and take whatever actions might be available to us through GATT or through section 303.

Mr. McCAULEY. That is right.

Mr. BYRNES. That is all.

Mr. SCHNEEBELI. Mr. Chairman—

The CHAIRMAN. Mr. Schneebeli?

Mr. SCHNEEBELI. In the event this legislation were adopted and GATT required that we extend it to all the countries under GATT, how can it affect our trade with Western Europe let's say?

Mr. McCAULEY. Well, I started, Mr. Schneebeli, by saying that under this bill this administration could not extend this to other nations because the bill specifically limits it to imports from Canada and also of articles that are specified percentages in Canadian origin.

Mr. SCHNEEBELI. What action GATT might take with regard to us?

Mr. McCAULEY. I would assume that any country that felt it was injured either would retaliate or ask for compensation.

Mr. SCHNEEBELI. Thank you.

Mr. BYRNES. Let me ask one more question here, Mr. Chairman.

Under a 303 proceeding, do items continue to come in until there has been an affirmative finding that there has been a violation so that there have not been any items coming into this country subject to the possibility of a countervailing duty being assessed?

Mr. McCAULEY. That is right. To my knowledge, there was none. I don't know of any.

Mr. BYRNES. Is there something in this legislation that is retroactive? Have we not been letting items come into this country that otherwise would be dutiable?

Mr. McCAULEY. You mean under this—

Mr. BYRNES. Under a sort of a waiver or suspension of duty?

Mr. McCAULEY. You are correct. In anticipation of this legislation, the Treasury Department, on its own volition, announced in the Federal Register shortly after the conclusion of the agreement that entries of parts would not be liquidated provided that the importer would supply a declaration that to the best of his information and belief these are articles that will be covered by this bill when it is enacted, words to that effect. So right now the articles that are coming from Canada are automotive products that are coming from Canada which are specified in the provisions of H.R. 6960; there are no duties being collected on those.

Mr. BYRNES. They are entered subject to the possibility of the duties being imposed should this legislation not be enacted.

Mr. McCAULEY. Yes, sir.

Mr. BYRNES. Isn't that something new?

Mr. McCAULEY. I said on its own volition, sir. It is an innovation. I am trying to be fair here to the Treasury Department. I think there have been occasions when bills have been, for instance, passed by this House that have died in the Senate of what we con-

sider a noncontroversial character where they have delayed the provisions anticipating that the following year the Congress would enact the legislation, and that would be the case where the free effective date was prior to the entry of this particular item.

I don't know of any place where they have anticipated congressional approval of a rather new proposition. I recall in those cases this committee has established a date on which a duty would be effective.

Mr. BYRNES. Yes, and the Treasury has used the date we have set.

Mr. McCAULEY. Yes, sir.

Mr. BYRNES. I don't believe the committee has established a reduction in duty.

Mr. McCAULEY. Again, in fairness, Mr. Byrnes, the agreement here contemplates action such as that.

Mr. BYRNES. The agreement?

Mr. McCAULEY. Yes, sir.

Mr. BYRNES. That is an Executive action.

Mr. McCAULEY. I agree.

Mr. BYRNES. The law does not give the Executive any authority to eliminate these tariffs and that is why the Executive is here asking to pass this bill, because he does not have the authority.

Mr. McCAULEY. Yes, sir.

Mr. BETTS. I think you just said to Mr. Schneebeli that our Government is not entering into any such agreement with any other government under this legislation. Then yesterday the State Department—

Mr. McCAULEY. I didn't say that, sir. If I said that, I am wrong. I said that the benefits of H.R. 6960, that is, the lower rates of duty, cannot be generalized to other countries. I understood Mr. Schneebeli's question to be that in light of our most-favored-nation obligations, which in general require that any of the United States shall afford to a country treatment which is no less favorable than that which it gives the most favored nation, that under that clause, if H.R. 6960 becomes law and the President proclaims a lower duty, let's say, on piston rings, whether that lower duty will be given to German piston rings and Japanese piston rings, and my answer to that is "No."

There is authority in the agreement for the President to negotiate other agreements involving automotive products which I assume would stand on their own two feet. In other words, if there were an agreement now, if it became a matter of policy or judgment that the automotive trade between the United States and Germany was unique, they might negotiate this same kind of an agreement.

As I read the bill, this would give them the prior authority to negotiate such authority.

Mr. BETTS. I asked that question yesterday.

The CHAIRMAN. Mr. Schneebeli.

Mr. SCHNEEBELI. As a result of the inference of this Treasury action in January, could you give us any definable percentage increase that has resulted in any import?

Mr. McCAULEY. None whatsoever, sir.

Mr. SCHNEEBELI. You would not know?

Mr. McCAULEY. I would just venture a guess. My knowledge of the statistical reporting would be such that I would doubt whether January figures would be available anyway, now.

Mr. SCHNEEBELI. How about February and March? Has there been any noticeable increase then?

Mr. McCAULEY. Those figures would not be available as yet, sir. Perhaps the administration could get those for you.

Mr. SCHNEEBELI. Thank you.

The CHAIRMAN. Mr. McCauley, let me see if I understand exactly what you have said, and why. You are not at all concerned as I understand about the future of the American parts manufacturing industry so far as the agreement itself is concerned, insofar as this implementing legislation is concerned, just these two things alone. You still believe the American producers are more efficient and can still sell in the American market.

Mr. McCAULEY. That is right. That is right, sir.

The CHAIRMAN. What is there about the other part; explain it to me so I can understand now just what the fear is that you have in what Canada will do and what the producers of automobile parts and automobiles in Canada will do?

Mr. McCAULEY. Mr. Chairman, I think we have to start with what they did before because what they are doing now is no different than what they did before. The auto companies, as we all know, in the United States, and the auto companies in Canada are one and the same entities. When a U.S. supplier of a part to the auto companies offer that part to that company, he offers it with no inducement whatsoever having been created by his Government for that proffer of that part.

If I can use this \$10 example, a man makes a part in the United States for \$10 and he sells it to the auto companies for \$10. Now, on the Canadian side of the border the Canadian auto companies are not self-sufficient; they must import parts. It was mentioned in the hearings earlier, I believe, that the genesis of this whole idea came in the form of a report of one Dean Bladen, who is the Royal Commissioner of the Canadian auto industry. He seized on this single vulnerable of the Canadian auto companies, the fact that they cannot exist without importing parts from the United States. They must be able to import parts from the United States in order to produce cars.

He thought then that if that is the case, why don't we make them earn dutyfree treatment for these parts which they must import?

At the time he proposed this, for instance, Canada had on the books no duty on transmissions. Transmissions were free of duty. So following Dean Bladen's suggestion, the Canadians said, "Why don't we put the 25 percent tariff on this transmission and make the auto companies earn the 25 percent back again?"

How? All they have to do is to sell equal dollars amount of Canadian goods or arrange for the sale of an equal amount of Canadian goods and we will give them back the 25 percent.

So let's take a \$100 transmission. Because there are men in the room, let's say there is an auto company called the XYZ Co. The XYZ Co. needs a transmission. It can't make a car without a transmission, and the transmission costs \$100 U.S. value. When it comes

into Canada, they have to pay the Canadian Government \$25. Now, the transmission costs XYZ \$125.

Over on the other side of the ledger we have \$100 worth of Canadian parts which admittedly XYZ's affiliate in the United States can buy in the United States, let's say, for \$85. Here is Canadian goods, \$100, they could buy them in the United States for \$85, but if they buy the \$100 in Canada, they get \$25 back again on their imported transmission, so the transmission does not cost them \$125; it only costs them \$100.

The XYZ International Corp. has picked up \$25. It takes 15 of those dollars and uses that to make up the difference between the \$100 Canadian purchase that they could have bought in the United States for \$85, so in the total of the corporation it is more profitable for them to buy the higher priced Canadian item for use in the U.S. plant in order to earn the \$25 that they got for the purchase that they made in Canada. Now, this was essentially what the old plan was.

Now, what is the new plan? We don't know. We are talking again about what we read in the documents and what we have heard here today. I can tell you what we think this is.

The Canadian Government—again, there seems to be some problem, again it is semantics, again it is a real legal problem. The emphasis has been on the word “undertakings,” the Canadian Government calls the “firm assurances.” They even say “the law of contracts is being explored.”

Whatever these undertakings are between the Government of Canada and the companies, let's look at them for what they are. They are saying we will increase our output in Canada or arrange for the increase in output in Canada for a quarter of billion dollars worth of goods. What is Canada doing for that? They are going to give them a \$50 million duty rebate on their imports into Canada.

Again we start with that all-important fact: These companies must import from the United States; they can't exist without these imports.

All right. What do these imports amount to? They amount to approximately a quarter of a billion dollars. We have heard that \$240 million, \$250 million. Making an average $17\frac{1}{2}$ percent rate versus the 25-percent rate, they are going to get \$50 million back a year. This is what the president of Chrysler said and this is what the Canadian commentator said.

What are they going to get the \$50 million for? They are going to get it in exchange for the quarter of a billion production that they are going to sell into the U.S. market.

Is this any different from what we had before? Under the old scheme they got an item-by-item rebate, as it were. When they brought in \$100 worth of stock, they paid \$25 in tariffs. As soon as they ship \$100 out, the Canadian Government gave them the \$25 back.

Mr. Chairman, this is the economics, this is how this thing works. It has to work. This is why we do not fear the formal agreement. We don't fear any free trade, and why should we? We are members of an industry that is 25 times larger than Canada's industry. We are not afraid of free trade; we are afraid of competing with the treasury of a foreign government which is what we are doing again here.

The Canadian Government is paying these companies \$50 million a year for these undertakings. Again, I am not blaming the com-

panies. This is essentially, sir, where we are. We are right where we were before. I don't care what they call it.

The CHAIRMAN. Then you would conclude that the actual facts would be something other than free trade?

Mr. McCAULEY. Sir, I think it is not only the opposite of free trade, it is unfair trade. I think it is well for us all to focus on this. Section 303 is not a protectionist statute. What does it provide?

It says if you subsidize an export to the United States to the tune of 1 penny, we are going to put a penny duty on it so why don't you stop wasting your time?

The status quo will be maintained and never is the Secretary authorized to impose a duty of 1 cent higher than the amount of the subsidy.

That is all it does, it offsets, then it neutralizes, it is not a protective gimmick. We are not asking for additional protection.

Our fears, sir, at the beginning of this thing was for heaven's sake if you need this 25 percent subsidy, if you let them get away with that, what is to prevent Canada from saying that we will give you 100 percent of the duties you have to pay, we will give you 200 percent, anything we need to get our products into the U.S. market?

The CHAIRMAN. All right. If we make the articles subject to section 303 would you then be for the bill?

Mr. McCAULEY. Would I be what?

The CHAIRMAN. Would you then be for the bill?

Mr. McCAULEY. No, sir, I would not.

The CHAIRMAN. Why?

Mr. McCAULEY. I have a lot of confidence in myself but I would rather deal with the issue. We raised the 303 applicability in this bill because we look at this bill as a danger to our having access to Treasury in the courts that prosecute our case. I still am opposed to this bill because I think this bill is the last cog in the private agreement arrangement.

The CHAIRMAN. I know but if it is subject to section 303 would you not have the right of appeal to the Treasury by the very fear that you have of the effect of the legislation on the other arrangements?

Mr. McCAULEY. We would have our fears along those lines allayed, I agree with you, sir, but I don't want to say that we are going to take care of this whole matter with the Treasury because I would not want to presume.

The CHAIRMAN. You would have the same opportunities under this as you do under the existing law. You were very successful I thought in pursuing the matter.

Mr. McCAULEY. I understood then in this room there was some doubt about our success, Mr. Chairman, though I don't know which school of through prevailed.

The CHAIRMAN. Maybe I listened to the wrong school.

Any further questions?

Thank you again, Mr. McCauley.

Mr. McCAULEY. Thank you very much, Mr. Chairman.

(The following material was received by the committee:)

WASHINGTON, D.C., May 4, 1965.

HON. WILBUR D. MILLS,
*Chairman, Committee on Ways and Means,
House of Representatives, Washington, D.C.*

DEAR CHAIRMAN MILLS: During the April 27, 1965, hearings of the Committee on Ways and Means on H.R. 6960, 89th Congress, testimony was offered by the administration witnesses to the effect that the trade agreement between the United States and Canada on automotive products was concluded for several reasons and not solely because of Canada's 1962-64 subsidy scheme and the administration's desire to avoid having to invoke section 303 of the Tariff Act of 1930 and countervail Canada's subsidization.

In the Congressional Record of April 30, 1965 (at pp. 8753-57) the Honorable J. W. Fulbright, chairman, Committee on Foreign Relations, U.S. Senate, inserted several letters and a paper which raise some interesting points concerning the procedure followed regarding the conclusion and implementation of this automotive products trade agreement. But of particular relevance to the question of why this agreement was concluded is the following statement contained in a letter of February 9, 1965, from the Honorable Robert E. Lee, Acting Assistance Secretary of State for Congressional Relations to Senator Fulbright:

"The need for reaching an agreement with Canada which would make it possible for Canada to end its remission plan at the earliest possible time made it impractical to seek authorizing legislation prior to entering the agreement * * *."

We respectfully request that this letter and the material inserted by Senator Fulbright in the April 30, 1965, Congressional Record be included in the record of the Committee on Ways and Means' hearings on H.R. 6960 at the end of our testimony.

Respectfully submitted.

ALFRED R. MCCAULEY,
*Graubard, Moskovitz & McCauley,
Attorneys for the Industrial Committee of Paducah, Ky.*

[From the Congressional Record, Apr. 30, 1965]

UNITED STATES-CANADIAN AUTOMOTIVE AGREEMENT

MR. FULBRIGHT. Mr. President, at the time when President Johnson and the Canadian Prime Minister, Lester B. Pearson, signed the United States-Canadian Automotive Agreement, in January 1965, it was announced that the agreement would be submitted to Congress, for its approval by the enactment of necessary implementing legislation, rather than by seeking approval as a treaty requiring the advice and consent of the Senate.

In order to clarify the thinking of the executive branch in adopting this procedure, I asked the Department of State for its views, which I finally received in the form of a letter from the Acting Legal Adviser, dated February 24, 1965.

Not being completely satisfied with the Acting Legal Adviser's opinion that "the President may enter into a trade agreement either as an executive agreement or as a treaty," and that "his choice is not dictated by the Constitution, but by his own appraisal of the merits of either choice," I asked the American Law Division of the Library of Congress to give me a critical appraisal of the opinion of the Acting Legal Adviser. Such an appraisal was prepared by Legislative Attorney Norman J. Small, and was received by me on March 29, 1965.

Mr. Small's appraisal is most helpful. I call attention to only one of his comments on the opinion of the Acting Legal Adviser; namely, that:

"To the extent that either a treaty or an executive agreement is dependent upon legislative implementation for its effectuation, the President may be said to enjoy a choice of means only insofar as the Congress is disposed to sustain him in his election. It is the Congress, not the President, which retains the last word in determining whether the President's selection of the * * * means is to prove abortive or successful."

I believe that the exchange of correspondence I have had on this subject will be of interest to constitutional lawyers and to Congress, in giving consideration to its role in acting upon agreements with foreign countries which have been negotiated by the President of the United States.

I ask unanimous consent that the following material be printed at this point in the Record:

A letter from Chairman Fulbright to Secretary of State Rusk, dated January 28, 1965;

A letter from Acting Assistant Secretary of State Robert Lee to Chairman Fulbright, dated February 9, 1965, with enclosed agreement ;

A letter from Chairman Fulbright to Secretary Rusk, dated February 15, 1965 ;

A letter from Acting Legal Adviser Leonard C. Meeker to Chairman Fulbright, dated February 24, 1965 ; and

The Norman J. Small critical appraisal of March 29, 1965.

(There being no objection, the letters and the appraisal were ordered to be printed in the Record, as follows :)

HON. DEAN RUSK,
Secretary of State,
Washington, D.C.

DEAR MR. SECRETARY : I have noted the agreement recently signed between the United States and Canada concerning tariff concessions on the exchange of automotive products between the United States and Canada. Several members of the committee have commented to me about this agreement and wanted to know whether it will be submitted to the Senate for its advice and consent.

It is my impression that the administration considers this an agreement which the executive branch is competent to bring into effect without approval as a treaty. If this is the case, would you please give the committee at your early convenience an explanation of the administration's reasons for such a conclusion.

Sincerely yours,

J. W. FULBRIGHT, *Chairman.*

DEPARTMENT OF STATE,
Washington, D.C., February 9, 1965.

HON. J. W. FULBRIGHT,
Chairman, Senate Foreign Relations Committee,
U.S. Senate.

DEAR MR. CHAIRMAN : This is in reply to your letter of January 28, 1965, to Secretary Rusk raising the questions of whether the agreement recently signed with Canada to remove duties on automotive products is to be submitted to the Senate for its advice and consent and whether the executive branch can bring it into effect without approval as a treaty.

As you know, article I, section 7, of the Constitution requires that "All bills for raising revenue shall originate in the House of Representatives." It has been generally recognized that when international agreements relating to revenue matters are entered into by treaty, this constitutional provision requires that implementing legislation also be obtained. In other words, treaties relating to the raising of revenue are not considered self-executing but require separate legislation. (See the comments of Corwin in S. Doc. 170, 82d Cong., 2d sess., 418-420 (1953) ; see also Willoughby "On the Constitution of the United States" I (2d ed., New York 1929), 558-560. In the case of agreements relating to tariffs, in order to avoid presenting the Senate with the necessity to act twice upon the same matter, it has been customary to enter into such arrangements in the form of executive agreements implemented under legislative authority. (S. Doc. 170, op. cit. at 419).

The need for reaching an agreement with Canada which would make it possible for Canada to end its remission plan at the earliest possible time made it impractical to seek authorizing legislation prior to entering into the agreement. However, the agreement itself recognizes the need to obtain such legislation. As you will see in article II of the enclosed text, the agreement states that the Government of the United States will seek legislation during the present session of the Congress which would authorize the President to accord duty-free treatment to the products of Canada covered by the agreement. Canada has already ended its remission plan and removed its duties. Proposed legislation to permit the United States to remove its duties will be submitted shortly.

I hope this response to the questions raised in your letter will be helpful to you and the members of your committee. If you wish any further information on this matter, please let me know.

Sincerely yours,

ROBERT E. LEE,
Acting Assistant Secretary for Congressional Relations.

AGREEMENTS CONCERNING AUTOMOTIVE PRODUCTS BETWEEN THE GOVERNMENT OF
THE UNITED STATES OF AMERICA AND THE GOVERNMENT OF CANADA

The Government of the United States of America and the Government of Canada,

Determined to strengthen the economic relations between their two countries;
Recognizing that this can best be achieved through the stimulation of economic growth and through the expansion of markets available to producers in both countries within the framework of the established policy of both countries of promoting multilateral trade;

Recognizing that an expansion of trade can best be achieved through the reduction or elimination of tariff and all other barriers to trade operating to impede or distort the full and efficient development of each country's trade and industrial potential;

Recognizing the important place that the automotive industry occupies in the industrial economy of the two countries and the interests of industry, labor and consumers in sustaining high levels of efficient production and continued growth in the automotive industry;

Agree as follows:

ARTICLE I

The Governments of the United States and Canada, pursuant to the above principles, shall seek the early achievement of the following objectives:

(a) The creation of a broader market for automotive products within which the full benefits of specialization and large-scale production can be achieved;

(b) The liberalization of United States and Canadian automotive trade in respect of tariff barriers and other factors tending to impede it, with a view to enabling the industries of both countries to participate on a fair and equitable basis in the expanding total market of the two countries;

(c) The development of conditions in which market forces may operate effectively to attain the most economic pattern of investment, production, and trade.

It shall be the policy of each Government to avoid actions which would frustrate the achievement of these objectives.

ARTICLE II

(a) The Government of Canada, not later than the entry into force of the legislation contemplated in paragraph (b) of this article, shall accord duty-free treatment to imports of the products of the United States described in Annex A.

(b) The Government of the United States, during the session of the United States Congress commencing on January 4, 1965, shall seek enactment of legislation authorizing duty-free treatment of imports of the products of Canada described in Annex B. In seeking such legislation, the Government of the United States shall also seek authority permitting the implementation of such duty-free treatment retroactively to the earliest date administratively possible following the date upon which the Government of Canada has accorded duty-free treatment. Promptly after the entry into force of such legislation, the Government of the United States shall accord duty-free treatment to the products of Canada described in Annex B.

ARTICLE III

The commitments made by the two Governments in this Agreement shall not preclude action by either Government consistent with its obligations under Part II of the General Agreement on Tariffs and Trade.

ARTICLE IV

(a) At any time, at the request of either Government, the two Governments shall consult with respect to any matter relating to this Agreement.

(b) Without limiting the foregoing, the two Governments shall, at the request of either Government, consult with respect to any problems which may arise concerning automotive producers in the United States which do not at present have facilities in Canada for the manufacture of motor vehicles, and with respect to the implications for the operation of this Agreement of new automotive producers becoming established in Canada.

(c) No later than January 1, 1968, the two Governments shall jointly undertake a comprehensive review of the progress made toward achieving the objectives set forth in Article I. During this review the Governments shall consider

such further steps as may be necessary or desirable for the full achievement of these objectives.

ARTICLE V

Access to the United States and Canadian markets provided for under this Agreement may by agreement be accorded on similar terms to other countries.

ARTICLE VI

This Agreement shall enter into force provisionally on the date of signature and definitively on the date upon which notes are exchanged between the two Governments giving notice that appropriate action in their respective legislatures has been completed.

ARTICLE VII

This Agreement shall be of unlimited duration. Each Government shall however have the right to terminate this Agreement twelve months from the date on which that Government gives written notice to the other Government of its intention to terminate the Agreement.

In witness whereof the representatives of the two Governments have signed this Agreement.

Done in duplicate at Johnson City, Texas, this 16th day of January 1965, in English and French, the two texts being equally authentic.

For the Government of the United States of America :

LYNDON B. JOHNSON.
DEAN RUSK.

For the Government of Canada :

LESTER B. PEARSON.
PAUL MARTIN.

ANNEX A

1. (1) Automobiles ; when imported by a manufacturer of automobiles.

(2) All parts ; and accessories and parts thereof, except tires and tubes, when imported for use as original equipment in automobiles to be produced in Canada by a manufacturer of automobiles.

(3) Buses, when imported by a manufacturer of buses.

(4) All parts, and accessories and parts thereof, except tires and tubes, when imported for use as original equipment in buses to be produced in Canada by a manufacturer of buses.

(5) Specified commercial vehicles, when imported by a manufacturer of specified commercial vehicles.

(6) All parts, and accessories and parts thereof, except tires, tubes and any machines or other articles required under Canadian tariff item 438a to be valued separately under the tariff items regularly applicable thereto when imported for use as original equipment in specified commercial vehicles to be produced in Canada by a manufacturer of specified commercial vehicles.

2. (1) "Automobile" means a four-wheeled passenger automobile having a seating capacity for not more than ten persons ;

(2) "Base year" means the period of twelve months commencing on the 1st day of August 1963 and ending on the 31st day of July, 1964 ;

(3) "Bus" means a passenger motor vehicle having a seating capacity for more than 10 persons, or a chassis therefor, but does not include any following vehicle or chassis therefor, namely an electric trackless trolley bus, amphibious vehicle, tracked or half-tracked vehicle or motor vehicle designed primarily for off-highway use ;

(4) "Canadian value added" has the meaning assigned by regulations made under section 273 of the Canadian Customs Act ;

(5) "Manufacturer" of vehicles of any following class, namely automobiles, buses or specified commercial vehicles, means, in relation to any importation of goods in respect of which the description is relevant * * *.

(A) the ratio of the net sales value of which to the net sales value of all vehicles of that class sold for consumption in Canada by the manufacturer in that period is equal to or higher than the ratio of the net sales value of all vehicles of that class produced in Canada by the manufacturer in the base year to the net sales value of all vehicles of that class sold for consumption in Canada by the manufacturer in the base year, and is not in any case lower than seventy-five to one hundred ; and

(B) the Canadian value added of which is equal to or greater than the Canadian value added of all vehicles of that class produced in Canada by the manufacturer in the base year;

(6) "Net sales value" has the meaning assigned by regulations made under section 273 of the Canadian Customs Act; and

(7) "Specified commercial vehicle" means a motor truck, motor truck chassis, ambulance or chassis therefor, or hearse or chassis therefor, but does not include :

(a) any following vehicle or a chassis designed primarily therefor, namely a bus, electric trackless trolley bus, amphibious vehicle, tracked or half-tracked vehicle, golf or invalid cart, straddle carrier, motor vehicle designed primarily for off-highway use, or motor vehicle specially constructed and equipped to perform special services or functions, such as, but not limited to, a fire engine, mobile crane, wrecker, concrete mixer or mobile clinic; or

(b) any machine or other article required under Canadian tariff item 438a to be valued separately under the tariff item regularly applicable thereto.

3. The Government of Canada may designate a manufacturer not falling within the categories set out above as being entitled to the benefit of duty-free treatment in respect of the goods described in this Annex.

ANNEX B

(1) Motor vehicles for the transport of persons or articles as provided for in items 692.05 and 692.10 of the Tariff Schedules of the United States and chassis therefor, but not including electric trolley buses, three-wheeled vehicles, or trailers accompanying truck tractors, or chassis therefor.

(2) Fabricated components, not including trailers, tires, or tubes for tires, for use as original equipment in the manufacture of motor vehicles of the kinds described in paragraph (1) above.

(3) Articles of the kinds described in paragraphs (1) and (2) above include such articles whether finished or unfinished but do not include any article produced with the use of materials imported into Canada which are products of any foreign country (except materials produced within the customs territory of the United States), if the aggregate value of such imported materials when landed at the Canadian port of entry, exclusive of any landing cost and Canadian duty, was—

(a) with regard to articles of the kinds described in paragraph (1), not including chassis, more than 60 percent until January 1, 1968, and thereafter more than 50 percent of the appraised customs value of the article imported into the customs territory of the United States; and

(b) with regard to chassis of the kinds described in paragraph (1), and articles of the kinds described in paragraph (2), more than 50 percent of the appraised customs value of the article imported into the customs territory of the United States.

FEBRUARY 15, 1965.

Hon. DEAN RUSK,
Secretary of State,
Washington, D.C.

DEAR MR. SECRETARY: I refer to my letter to you of January 28, 1965, in which I asked for a statement of the administration's reasons for concluding that the United States-Canadian Automotive Agreement of January 16 should not be submitted to the Senate for its advice and consent in accordance with the applicable constitutional provisions. The reply of February 9, 1965, which I received from Acting Assistant Secretary of State for Congressional Relations, Mr. Lee, does not, in my opinion, meet the issue. The issue is constitutional and the Department's position should rest on constitutional grounds, not on the procedural convenience of the Senate; i.e., to avoid presenting the Senate with the necessity to act twice upon the same matter.

An increasing number of Members are under the impression that executive branch decisions whether to submit international agreements to the Senate for approval by two-thirds of its Members or to the Congress for a majority decision are based on expediency rather than the Constitution.

Could I have from you, or from your legal adviser speaking for the Department of State, such legal opinion as may underlie the Department's decision in this case? That opinion should, in my view, seek to distinguish between the Canadian agreement on automotive parts and commodity agreements requiring implementing legislation, such as those relating to coffee and wheat.

Sincerely yours,

J. W. FULBRIGHT, *Chairman.*

DEPARTMENT OF STATE,
Washington, D.C., February 24, 1965.

HON. J. W. FULBRIGHT,
Chairman, Senate Foreign Relations Committee,
U.S. Senate

DEAR MR. CHAIRMAN: I have for reply your letter to the Secretary of February 15, 1965, in which you request a legal opinion underlying the Department's reasons for concluding that the U.S.-Canadian automotive agreement of January 16 should not be submitted to the Senate for its advice and consent as a treaty.

It is well settled that the President, by virtue of his constitutional power to conduct foreign relations, may enter into many types of international agreements without resort to the treatymaking process (*United States v. Belmont*, 301 U.S. 324 (1937)).¹ Some of these executive agreements require implementing legislation, some do not, but the power to enter into such agreements is quite broad. Corwin has stated that "the executive agreement power, especially when it is supported by congressional legislation, today overlaps the treatymaking power" "The Constitution of the United States of America," S. Doc. 170, 82d Cong., 2d sess., 1953 (Corwin ed.).²

The Supreme Court has stated that trade agreements are among those which the President has the power to enter into through the executive agreement process. In *Altman & Co. v. U.S.* (224 U.S. 583 (1912)), the Court recognized that an executive agreement entered into pursuant to the Tariff Act of 1897 was a "compact authorized by the Congress of the United States, negotiated and proclaimed under the authority of its President" (at p. 601).

The next question with regard to an executive agreement is whether it is self-executing or whether congressional action is necessary to implement it. While the line of demarcation is not always wholly clear, legislation is necessary where the United States is required under the agreement to take actions not consistent with existing statutes. Because the primary purpose of the automotive agreement is to remove existing duties on automotive products, and because this step is not permitted by existing trade legislation, implementing legislation is necessary. Accordingly, we have made sure in the agreement that we undertake no obligations requiring changes in statutory provisions until such implementing legislation is secured.

It is, of course, open to the President to enter into a trade agreement through the treatymaking process. In most instances, ratification by the President after advice and consent by the Senate will bring a treaty into force as law. However, in some cases, treaties are not self-executing but require implementing legislation. This is true of a treaty which deals with revenue matters, where it has been thought that legislation is required to satisfy the provisions of article I, section 7, of the Constitution, which says: "All bills for raising revenue shall originate in the House of Representatives." (See Willoughby, "On the Constitution of the United States" I (2d edition 1929) 558-560.) Since the automotive agreement contemplates the elimination of customs duties, under this view legislation would have been required even if the agreement were in the form of a treaty.

Thus, as a constitutional matter, the President may enter into a trade agreement either as an executive agreement or as a treaty. He has this choice whether or not legislation is required to execute the agreement. The question of whether a trade agreement should be entered into as a treaty or executive agreement rests in the judgment of the President. His choice is not dictated by the Constitution but by his own appraisal of the merits of either choice. As the Supreme Court said in *United States v. Curtiss-Wright Corp.* (299 U.S. 304, 218 (1936)), "not only, as we have shown is the Federal power over external affairs in origin and essential character different from that of internal affairs, but participation in the exercise of the power is significantly limited. In this vast external realm,

¹ McClure states that the President entered into 27 executive agreements during the first 50 years of the Republic, 238 during the second 50 years, and 917 during the third 50 years (McClure, "International Executive Executive Agreements," 4 (1941)).

² See also McDougal & Lans, "Treaties and Congressional-Executive or Presidential Agreements: Interchangeable Instruments of National Policy," 54 Yale Law J. 181 and 534 (1945). "[O]ur constitutional law today makes available two parallel and completely interchangeable procedures, wholly applicable to the same subject matters and of identical domestic and international legal consequences, for the consummation of intergovernmental agreements. In addition to the treatymaking procedure * * * there is what may be called an 'agreement-making procedure' which may operate either under the combined powers of the Congress or the President or in some cases under the powers of the President alone" (id., at p. 187). This article is a definitive work on the origin and extent of the "agreement-making power."

with its important, complicated, delicate and manifold problems, the President alone has the power to speak or listen and to agree as a representative of the Nation."

The President's choice between the treaty and executive agreement procedures will be based on many factors, including foreign policy considerations. For example, with regard to several recent multilateral commodity agreements it was the judgment of the President that the participation in the agreement by the United States should be made through the treaty process. As you know, these agreements are of great importance to the less developed member countries, and it was believed that the status of these agreements would be enhanced if the United States and the other member countries followed the formal treaty process in ratifying them. This procedure has usually been followed in multilateral agreements dealing with commodities, but in some cases, e.g., the Short-Term and Long-Term Cotton Textile Agreements (TIAS 4884 and 5240), the President considered the executive agreement with legislation procedure appropriate.

The United States-Canadian automotive agreement is bilateral and deals with the elimination of duties. It has been the regular practice for over 30 years to use the executive agreement-legislative authority procedure for agreements of this type. In the usual case, the legislative authority has been provided first and the executive agreement made later—as under the reciprocal trade legislation of 1934 and the Trade Expansion Act of 1962. However, it is equally within the constitutional powers of the President to make an executive agreement first, subject to the enactment of legislation and have the legislation follow. This was done, for example, with regard to the cotton textile arrangements where legislation (Public Law 87-488, June 19, 1962, 76 Stat. 104) was subsequently enacted to permit actions against nonparticipating countries.

This tradition of using the executive agreement procedure for trade arrangements dealing with tariff matters was continued with the automotive agreement. We believe the course taken by the President is clearly within his constitutional prerogatives.

Sincerely yours,

LEONARD C. MEEKER,
Acting Legal Adviser.

(From the Library of Congress Legislative Reference Service)

A CRITICAL APPRAISAL OF THE LEGAL ARGUMENTS PRESENTED IN AN OPINION SUBMITTED BY THE ACTING LEGAL ADVISER TO THE STATE DEPARTMENT

(Prepared at the request of the Senate Committee on Foreign Relations by Norman J. Small, legislative attorney, American Law Division, Mar. 29, 1965)

As a preliminary to extensive consideration of the aforementioned issue, it must be recognized at the outset that tolerance of the President's choice of procedure on the part of the Senate coupled with its willingness to join with the House in the adoption of the required implementing legislation would achieve the President's objective by an approach that constitutionally would be entirely feasible. Manifestly, the validity of this approach will not be impaired by whether the requisite statutory authorization is adopted first in point of time or is extended subsequently to the negotiation of such agreement (Tariff Act of 1897; 30 Stat. 151, 203, sec. 3; Trade Agreements Act of 1934; 19 U.S.C. 1351-1354; Trade Expansion Act of 1962; 19 U.S.C. 1351). However, until this grant of statutory power is forthcoming, the executive agreement with Canada will not become enforceable; for it is intended to effect an alteration of the tariff policy of the United States, the origination of which is reserved by the Constitution (art. I, sec. 7) to the legislative branch.

To concede that the last mentioned approach will satisfy all legal requirements, nevertheless, does not entail unqualified acceptance of the statement of the acting legal adviser that "as a constitutional matter the President * * * has a choice * * * [as to] whether a trade agreement should be entered into as a treaty or executive agreement." and independently of the fact that one or both means may require for their execution the passage of implementing legislation, the President's selection of either is dictated solely by his own appraisal of the merits of each in any given situation (opinion of the Acting Legal Adviser, p. 2). Appraised as a point of departure, this statement on its face appears to be entirely accurate: for in embarking upon any given negotiation intended to be productive of an

international understanding, the President, indeed, is free to select the means, treaty, or executive agreement for attaining such an accord with one or more nations. On the other hand, when appraised in terms of fruition, the Acting Legal Adviser's statement falls short of complete accuracy. To the extent that either a treaty or an executive agreement is dependent upon legislative implementation for its effectuation, the President may be said to enjoy a choice of means only insofar as the Congress is disposed to sustain him in his election. This conclusion is abundantly sustained by the substantial number of significant executive agreements which were reduced to scraps of paper by the refusal, born of their disapprobation of this means of negotiations, of one or both Houses to adopt the legislation requisite for their enforcement.

After a thorough examination of the complete record of congressional reaction to the President's recourse to executive agreements in lieu of treaties, one text writer has observed:

"Experience has, however, at least vindicated and reestablished the principle that significant financial commitments may not be made except by treaty, or at all events legislative action of the two Houses; that, in general, agreements profoundly affecting the country's foreign interests and policies should be only by treaty; and finally, that the dividing line between treaty procedure and some alternative procedure is one to be drawn, in the final analysis, not by an executive, but by the Senate or by Congress as a whole (Frederic A. Ogg and P. Orman Ray, "Introduction to American Government (9th ed., 1948), p. 792).

Thus, when a President chooses to forgo "constitutional processes," a phrase which in the Senate dictionary always has meant negotiation by treaty requiring Senate approval by the usual two-thirds majority, and to reach an international understanding by recourse to a non-self-executory type of executive agreement, it is the Congress, and not the President, which retains the last word in determining whether the President's selection of the latter means is to prove abortive or successful. How the Congress will express this last word in connection with the Canadian agreement and upon what grounds it will be based embrace matters not properly within the scope of this report. The historical record, however, suggests one consideration to which the Congress hitherto has accorded significance.

For over 65 years, beginning with the Tariff Act of 1897 (30 Stat. 151, 204-205, sec. 4) and continuing through the Tariff Act of 1922 (42 Stat. 858, 941-942, sec. 3), the Trade Agreements Act of 1934, and presently, the Trade Expansion Act of 1962, the Congress, pursuant to the powers vested in it by the plain language of the Constitution, has empowered the President to effect no more than reductions, not in excess of the percentages set forth therein, of tariff rates fixed by law. Whether or not the President has ever solicited broader discretion or whether or not the Congress was averse to granting it, the record thus far discloses but one expansion of this measure of authority; to wit, the provisions of the Trade Expansion Act (19 U.S.C. 1831-1833) authorizing the President to negotiate reductions in excess of such percentages in negotiations limited to the European Common Market.

Since the validity of these measures is not disputed, and since enforcement thereof is encompassed within the President's duty to see to the faithful execution of the laws (art. 2, sec. 3), it would appear that the President, consistently with this obligation, might have taken the precaution of conforming his negotiations with Canada to the procedures sanctioned by the Trade Expansion Act of 1962 or by such amendment thereof as might have proved more adequate for furtherance of his purposes. After more than 65 years of repeated enactments affording the President discretion limited to effecting no more than a partial reduction, as distinguished from a total elimination, of existing tariff rates, it could reasonably be contented that the President would seem to have been put on notice by the Congress that it did not intend these statutory provisions to be dismissed as no more than casual guidelines in no way contracting the President's choice of means for effectuating such total elimination.

Even the Acting Legal Adviser contributes a measure of support for this conclusion: for on page 3 of his opinion he endeavors to equate tariff elimination agreements with tariff reduction agreements by asserting that the "tradition of using the executive agreement procedure for trade arrangements dealing with tariff matters was continued with automotive agreement." If, indeed, tariff elimination agreements merit equation with tariff reduction agreements, then compliance with at least section 243 of the Trade Expansion Act might be said to be indispensable to sustain the State Department's contention that the agreement reached with Canada is virtually indistinguishable from the tariff cutting

agreements for which Congress has afforded him statutory warrant of authority. As spelled out in section 243 of the Trade Expansion Act of 1962 (19 U.S.C. 1873, the President, before each negotiation authorized thereunder, "shall upon the recommendation of the Speaker of the House of Representatives, select two members (not of the same political party) of the Committee on Ways and Means, and shall, upon the recommendation of the President of the Senate, select two members (not of the same political party) of the Committee on Finance, who shall be accredited as members of the United States delegation to such negotiation." In the negotiations with Canada this provision was ignored.

As a matter of expediency, moreover, fulfillment of the requirements of section 243 might have obviated the controversy now being appraised. By including in the negotiating delegation the four Members of Congress, as stipulated in that provision, the executive branch might have been alerted in advance to the prospect of an unfavorable congressional reaction to the consummation of the present executive agreement, and, thus forewarned, might have elected to conduct the Canadian negotiations along more conventional lines.

Even the most noteworthy proponents of presidential reliance upon executive agreements in lieu of treaties, among them at least one quoted in the opinion (p. 1) of the Acting Legal Adviser, seem prepared to concede the advisability of adopting such precautions. Thus, Wallace M. McClure, who precipitated endless controversy by his assertion that "the President can do by executive agreement anything that he can do by treaty"; but who limited this conclusion by a most significant qualification, "provided Congress by law cooperates," recognizes the President's dependence upon congressional support to effectuate an executive agreement which amends or will conflict with existing statutory enactments, the very result produced by the pending Canadian agreement which cannot be reconciled with the terms of the Trade Expansion Act. According to McClure:

"The procedure of congressional enactment giving effect to executive agreements thus furnishes a facile method of enabling the President in actual practice, provided he has assurance of congressional support, to enter into executive agreements which will result in overruling previous acts of Congress * * *. In actual practice, congressional 'authorization,' as in the Trade Agreements Act of 1934, enables Congress to dictate the terms within which negotiations must be confirmed and hence to participate in a very direct way in the actual conduct of international relations". ("International Executive Agreements," pp. 353, 362, 363 (1941)).

These aforementioned quotations clearly are open to a construction supporting the suggestions heretofore advanced; namely, that when a President contemplates entering into an executive agreement embodying provisions that exceed his statutory warrant of authority, fulfillment of his constitutional obligation to see to the faithful execution of the laws would seem to render more prudent and advisable the acquisition of requisite legislative authority prior to entering upon the negotiation of said agreement. That was the approach observed by the late President Roosevelt who, in his message to Congress recommending adoption of what was to become the Trade Agreements Act of 1934, asserted that "I am requesting the Congress to authorize the Executive to enter into commercial agreements with foreign nations" (H. Doc. No. 273, 73d Cong., 2d sess., p. 1).

Even the authors quoted by the acting legal adviser seem to be in accord: "A direct presidential agreement will not ordinarily be valid if contrary to previously enacted legislation * * * [and] a wise President will of course ordinarily seek to avoid conflict with the Congress by seeking legislative support for his actions" (Myres S. McDougall and Asher Lans, "Treaties and Congressional—Executive or Presidential Agreements: Interchangeable Instruments of National Policy," 54 Yale L.J. 181, 317-318, 589 (1945)).

In final analysis, however, it must be recognized that the controversy likely to arise out of the pending Canadian agreements is not one which may be resolved by adjudication or by the exchange of legal precedents by the opposing parties therein engaged. Of the three decisions cited by the acting legal adviser, none contributes any support for his cause. The quotation from *U.S. v. Curtiss-Wright Corp.*, 299 U.S. 304, 318, 319 (1936) is wholly irrelevant; for the present disagreement entails no encroachment upon the President's exclusive prerogative to serve as the conduit for the conduct of foreign relations. Such encroachment would arise only in the event that Members of Congress attempted to contact the Canadian Ambassador or the Canadian Foreign Office with a view to offering advice to

the Canadian officials on the merits of the pending agreement. Nothing approximating such intrusion is herein involved. On the contrary, such controversy as may rise in conjunction with consideration of the pending agreement will pertain to what possibly might be described as congressional insistence upon Executive compliance with legislation which the Congress was empowered to enact. Moreover, whatever may be the legal status of certain self-executing executive agreements entered into by the President independently of any statutory authorization (*United States v. Belmont*, 301 U.S. 324 (1937)), or of executive agreements enforced pursuant to prior warrant of statutory authority (*Altman & Co. v. United States*, 224 U.S. 583, 600-601 (1912)), the pending agreement with Canada is presently not possessed of any of the attributes of a law. It is not a law precisely for the reason that it is dependent upon an amendment of existing law for its implementation.

If precedents are sought for purposes of discussions with the State Department, the following statement extracted from the concurring opinion of Mr. Justice Jackson in *Youngstown Co. v. Sawyer* (343 U.S. 579, 637-638 (1952)), a decision arising from a legislative-executive collision in a matter of domestic, as distinguished from foreign, policy; to wit, the Presidential seizure of the steel mills, would appear, on its face in any event, to afford support for congressional insistence upon the President's compliance with the aforementioned Trade Expansion Act:

"When the President takes measures incompatible with the expressed or implied will of Congress, his power is at its lowest ebb, for then he can rely only upon his own constitutional powers minus any constitutional powers of Congress over the matter. Courts can sustain exclusive Presidential control in such a case only by disabling the Congress from acting upon the subject. Presidential claim to power at once so conclusive and preclusive must be scrutinized with caution, for what is at stake is the equilibrium established by our constitutional system."

What underlies the present controversy is the allotment of powers which the Constitution grants, respectively, to the President and Congress. If the President cannot commit the Senate to approval of a treaty which he has negotiated; and if the President and Senate, subsequently to ratification and promulgation of a treaty, cannot commit the House of Representatives to appropriate funds requisite for enforcement of the treaty, manifestly a President who elects to negotiate, via Executive agreement rather than by treaty, an understanding which is in excess of the statutory authority which Congress hitherto accorded him, may be said to have embarked upon a gamble that the Congress would prove content to extricate him from his dilemma by adoption of the necessary legislation.

The CHAIRMAN. Mr. Tucker.

I want the committee to know that the next witness is not only the executive secretary of the Automotive Wholesalers of Arkansas but he is also a very distinguished member of our State Legislature living in the Congressional district which is so ably represented here by our distinguished friend from Arkansas, Mr. Harris.

Mr. Tucker, we appreciate having you here today. We recognize you.

Mr. TUCKER. Thank you, Mr. Chairman.

Mr. Chairman, I do appreciate the opportunity to be here today and I want to thank you and the members of the committee.

STATEMENT OF BILL TUCKER, EXECUTIVE DIRECTOR, AUTOMOTIVE WHOLESALEERS OF ARKANSAS

Mr. TUCKER. I am appearing here today in my capacity as executive director of the Automotive Wholesalers of Arkansas, a trade association composed primarily of independent wholesalers of automotive parts. As a member of the Arkansas Legislature and an active participant in legislative committee hearings, I have some appreciation of the difficult task this committee faces with respect to this legislation.

My appearance here today is to oppose enactment of H.R. 6960 because in my opinion approval would be tantamount to Government assistance and approval of monopolistic concentration in the automotive industry. I say without hesitation that I am supported in this thinking by every automotive parts wholesaler in Arkansas. They are shaken, yes stunned, but as has been the history of the independent businessman from the very beginning of this, our country, when cornered, as we feel we are in this matter, we will fight and fight hard to preserve our independent sources of supply.

Local marketing of automotive parts: The automotive parts industry is basically divided into two parts—the independents and the vehicle manufacturers. By the independents I mean the hundreds of small- and medium-sized parts manufacturers which are not the subsidiaries of the giant vehicle manufacturers, such as General Motors, Ford, Chrysler, and American Motors.

These independent manufacturers market their products mainly through the independent automotive parts wholesalers. If the independent wholesalers did not exist, the independent manufacturers would not be able to exist. I recognize that the franchised new car dealers do purchase parts from the independent wholesalers on an as-needed basis. But the stocking and active selling of the products of the independent manufacturers depends on the independent wholesalers. The franchised car dealers are expected, and frequently do, limit their purchase of automotive parts to the vehicle manufacturers or the parts subsidiaries of the vehicle manufacturers.

Conversely, the automotive parts wholesalers could not exist without a strong and flourishing independent automotive parts industry. To us, then, this is the issue: To preserve the independent parts manufacturer from the crushing power of Government-sponsored market monopoly.

Our wholesalers want to keep many alternate sources of supply. Gentlemen, the very lifeblood of any wholesaler jobber is his source of supply. He must look to this source for many things other than just being able to negotiate a workable contract for buying his merchandise from this supplier. Often-times credit is involved. Technical information is passed from the supplier to the jobber. Obsolescence is always taken into consideration. These and many other things are of prime concern to the wholesaler.

We want to have a half-dozen sources of supply for Ford piston rings, Chrysler mufflers, and Chevrolet brakedrums. We have every reason to believe that if we could purchase these products only from the vehicle manufacturers, we would no longer be truly independent wholesalers. The vehicle manufacturers would necessarily dictate the terms of purchase, of territories, of selling practices, and selection of customers.

Today we are the active competitors of their franchised car dealers, all of whom sell and install replacement parts. Our competition not only gives an outlet for the products of the independent manufacturers; it also keeps prices within reason for the benefit of the car owner.

What would happen if the independent wholesaler is forced into the position of buying his "wares" from his competitor? His direct competitor? It goes without saying that he would be at the complete mercy, if you please, of this competitor, the automobile manufacturer.

Is this protecting and/or promoting the independent wholesaler or his independence?

Vehicle manufacturers are primarily interested in selling new cars. Our segment of the industry—the independent wholesalers—is primarily interested in maintaining cars now on the road in efficient and safe working condition. The motoring public is the greatest beneficiary of this competition between the independents on the one hand and the vehicle manufacturers on the other.

Here is what the proposed legislation will do, in our humble opinion. The vehicle manufacturers are making tremendous efforts to capture a larger share of the replacement market. In a free economy, this is their privilege. But this bill before the committee places in the hands of the vehicle manufacturers the following powers:

1. The power to decide whose products will enter Canada duty free. Many independent manufacturers who now provide parts for new vehicles and the replacement field will find their contracts with the vehicle manufacturers curtailed or canceled, thus reducing their output and raising the unit price of production. This development would lessen the competition the vehicle manufacturers now find in the replacement market.

2. The power to import duty free from Canada parts formerly purchased from independent parts manufacturers in the United States. The current tariff wall of only 8½ percent on most parts is not prohibitive, but prior to the Canadian Government's export subsidies, parts were imported from Canada in only very limited quantities. Now Canada requires the vehicle manufacturers to export more parts from Canada. The increased export of parts from Canada is the foundation of the agreement.

This law, if enacted, would help Canada to force more Canadian-manufactured parts to the United States. The vehicle manufacturers, as a result of this legislation, if enacted, could actually make money by paying more for parts in Canada than they would have to pay for parts from U.S. independent parts manufacturers. Thus, despite the efficiency of our U.S. independent parts manufacturers, they will lose contracts, lose production runs, and be in a weaker competitive position.

The automotive parts wholesalers are primarily small, family-owned and family-operated businesses. Right now they are engaged in fighting the monopolistic agreements between the major oil companies and manufacturers relating to the sale of tires, batteries, and accessories at service stations. As you know, these cases are in the courts, with the Federal Trade Commission and the U.S. Department of Justice supporting the independence of lessees who operate the gasoline stations. We wholesalers are supporting the effort to keep the independence of the lessees—we call it our "Freedom of Choice" campaign—freedom for the lessee to buy from any source he chooses.

We independent automotive wholesalers want to maintain our freedom of choice—freedom to buy automotive parts from any sources of supply. Many manufacturers who hold contracts with the Big Three vehicle manufacturers are hesitant to openly testify against this legislation, but we are not, and we urge the committee to reject the legislation because the Government should not create by law a more favorable climate for monopolistic concentration in the automotive industry.

That is my statement, Mr. Chairman.

The CHAIRMAN. Mr. Tucker, we thank you, sir, for bringing to us the viewpoint of the automotive wholesaler dealers.

Any questions of Mr. Tucker?

Mr. Curtis?

Mr. CURTIS. Mr. Tucker, just a technical question. Do your suppliers supply parts directly to the automotive industry as well as supply replacement parts?

I assume you are primarily wholesaler of replacement parts, is that right?

Mr. TUCKER. Yes, we do primarily.

Mr. CURTIS. Are your members engaged in one activity exclusively, or do they frequently do both?

Mr. TUCKER. Primarily to the wholesaler. As a matter of fact, you are talking about the small independent manufacturer selling directly to the wholesaler.

Mr. CURTIS. Yes. I tried to ask the others and I wanted the first witness to give me the setup of the industry. I don't understand it.

Mr. TUCKER. That is the question right here. You squeeze out the small manufacturer.

Mr. CURTIS. Who does he manufacture for?

Mr. TUCKER. He manufactures to sell to the warehouse distributors who sell directly to the wholesaler.

Mr. CURTIS. The replacement?

Mr. TUCKER. Yes.

Mr. CURTIS. There are not too many of them then that make original equipment parts?

Mr. TUCKER. No, sir; original equipment.

Mr. CURTIS. Some of them I guess are, but most of them are not; is that right?

Mr. TUCKER. By far the vast majority do not.

Mr. CURTIS. Do not?

Mr. TUCKER. That is right.

Mr. CURTIS. They are in the replacement end?

Mr. TUCKER. That is right.

Mr. CURTIS. Thank you.

The CHAIRMAN. Mr. Betts.

Mr. BETTS. Talking of the parts, how does the Canadian parts business compare with the United States?

Mr. TUCKER. How much?

Mr. BETTS. How big is the Canadian parts business as compared to ours? Is it a big operation?

I am asking that because you said that one of the dangers of this would be to import duty free from Canada into the United States. You must be fearful of the Canadian market as far as parts are concerned; is that right?

Mr. TUCKER. We are fearful from the standpoint that if we feel that ultimately if this legislation came to pass, came into being, that the encroachment of the vehicle manufacturers to use, Mr. Chairman, an Arkansas term, they would be gobbling up the small independent manufacturer and then we in turn would be forced to buy directly from our competitor which is the automobile dealer and manufacturer.

Mr. BETTS. Is the parts manufacturing a big business?

Mr. TUCKER. I am not an authority on that, sir.

Mr. BYRNES. As far as the Canadian agreement is concerned, it does not touch replacement parts, does it? It just has to do with original equipment?

Mr. TUCKER. We are fearful of that, sir, as I believe I stated here; of course, it could get over into that.

Mr. BYRNES. That the authority is given to the President under the legislation. Even though the current agreement does not touch replacement parts it would give the President authority to negotiate further the coverage of replacement parts?

Mr. TUCKER. Yes, sir. I don't think that the legislation necessarily stops him at that point, so I would assume that he could go on.

Mr. BYRNES. Yes, this is what I am trying to get at. As far as the present agreement goes, it does not touch replacement parts but the power would be given to the President to negotiate in that area.

Mr. TUCKER. Yes, sir.

Mr. BYRNES. I have been led to understand that our negotiators attempted to have the agreement with the Canadians cover replacement as well as original parts but that the Canadians rejected that phase of it. Do you know anything about that background?

Mr. TUCKER. No, sir, not really. Of course about all we know about this thing is what we have read in the paper, and we have not been able to get enough information on the thing to really make too thorough a study on it from that standpoint.

Mr. BYRNES. As far as removing the duties, both the Canadian duty and the American duty on replacement parts, what is your position with respect to that? Can our people compete adequately?

I gather from all the testimony here that if we can compete without any question with the Canadians on original parts we can certainly do it on replacements. Is that your understanding?

Mr. TUCKER. I think the people can compete with any government but when you subsidize an industry—

Mr. BYRNES. I am just talking on a free trade basis. As far as your people are concerned you have no objection to having complete free trade unsubsidized in replacement parts.

Mr. TUCKER. I would have to give that a lot of thought.

The CHAIRMAN. Mr. Battin.

Mr. BATTIN. Mr. Chairman, just to clear up a question that Mr. Byrnes raised, Canada was opposed to including replacement parts because that would work to our benefit. It would seem that this is a one-way street.

Mr. BYRNES. That was my understanding. We tried to get them to include replacement parts but the Canadians objected to having that included as an item.

The CHAIRMAN. Any further questions?

Thank you again.

Mr. TUCKER. Thank you, Mr. Chairman, and members of your committee.

The CHAIRMAN. Mr. Taft.

Mr. Taft, you have been before this committee before. Please identify yourself for the record.

STATEMENT OF CHARLES P. TAFT, GENERAL COUNSEL, THE COMMITTEE FOR A NATIONAL TRADE POLICY

Mr. TAFT. Mr. Chairman, since the last time I appeared here I have had the pleasure of meeting the editor of the Arkansas Gazette. I must say I hope he supports the chairman of the committee because he certainly showed good judgment in his speech in Cincinnati.

My name is Charles P. Taft. I am a member of the Committee for a National Trade Policy. The committee appears in this hearing for the purpose of supporting H.R. 6960 which would permit the United States to implement the executive agreement signed by the President and by the Canadian Prime Minister last January 16. We have taken this position because we believe that the objectives of the agreement and of the proposed legislation are freedom of trade between the United States and Canada in automotive vehicles and parts.

I might interrupt to say I have some good precedent for being involved in this because my father negotiated the reciprocity agreement in 1911 which was passed in the Senate but unfortunately was defeated in Canada partly because the Honorable Champ Clark said this was the first step toward the annexation of Canada.

As your committee knows from previous appearances of our organization in this hearing room, we believe that freer international trade is the trade policy best calculated to advance the national interest, and that the pace of trade liberalization should be as fast as the capabilities of the United States and its major trading partners allow. We, therefore, supported the Trade Expansion Act and its predecessor legislation, and we have opposed the continuing efforts that have been made to get our Government to impose new restrictions on trade.

Despite the obvious fact that the executive agreement does not provide for total free trade at this time on shipments of all automotive vehicles and original parts between the two countries, we feel that it goes in the direction of rationalizing the automotive industry on the North American Continent and should, therefore, result in lower costs of production both in Canada and the United States, to the ultimate benefit of consumers of both countries. The provisions relating to periodic review of the effects of the agreement on which we place great emphasis, will, in our opinion, enable both countries to make certain here that the agreement actually results in the benefits which are currently contemplated.

In this connection, we recommend that the annual report which the bill requires the President to make to the Congress should include material on the actual effect of the agreement on automotive trade between the two countries, the prospects for the future, the effects which changes in this trade may have on the various sectors of the U.S. automotive industry, and any recommendations which the administration may want to propose for the purpose of maximizing the benefits of the program and facilitating whatever adjustment may be necessary.

That is not in the bill now. We have no way of predicting what patterns of production mix will be decided upon by the various companies in their operations on both sides of the border. The results should be studied, however, to determine whether the agreement is working toward the agreed objectives of free trade and market expansion, and whether the adjustments are working out as expected.

Integration of the North American automotive industry is a goal worth striving for, since it would lead to greater efficiency and lower prices on both sides of the border, to the benefit of both countries. Canadian tariffs protected a relatively inefficient industry in a relatively small market and their existence invited manipulation as a means of accomplishing the desired integration. However, the most soundly based approach to achievement of this goal is the elimination of tariffs on both sides without causing the liquidation or serious decline of the weaker Canadian industry—an industry already in being and in which the Canadian economy has an important stake.

This should have been the answer sought by the Canadian Government in the first instance, rather than the most unfortunate road they initially chose. This in fact should have been sought by both Governments as part of a wider effort of the kind worked out in 1911 to achieve free trade in products of industries on both sides of the border which lend themselves in a special way to integration. The fact that the January agreement emerged out of controversy surrounding the Canadian order in council on automotive export promotion, and was largely if not entirely motivated by a need to resolve that difficulty and the political problem that followed on our side of the border, should not detract from the basic merits of what both Governments have now decided to do.

The fact that Canada acted in order to help protect its balance of payments among other reasons is certainly nothing against which we should throw any mud. We have been going through this process in this country.

We are aware of the fact that a major element in this new step is the assurance which the Canadian automobile manufacturers have given the Canadian Government regarding the amount of Canadian production they will maintain in relation to their total operations in the Canadian market.

Such assurances are important qualifications for the right to benefit from the duty-free provisions of the agreement. Our support of the bill before you proceeds on the assumption that these commitments are consistent with the objectives we have endorsed.

Since this statement has been written there has been testimony given by Mr. Chapman which gives the summary of those agreements. We are still willing to stand on our position because we see nothing in that summary at least which would lead us to change our view.

I think it might also be said that we cannot agree with Mr. McCauley, and his analyses of the effects on employment in the United States of the assurance that in 3 years they will increase production by \$250 million. They have been purchasing automobiles, I believe, at an increasing rate. The rate of increase is double ours.

I agree it is a smaller base but nevertheless it is the basis for a prediction for immediately approaching years, and on top of that a careful statistical analysis will indicate that that \$250 million can be achieved on the basis of their current increases in sales within the 3-year period without reducing in any way American exports to that market.

I am not an expert on this but I think that the committee will wish to look into the question of his exact statement which we believe to have been inaccurate in this respect.

In supporting the bill, we feel that certain features of this proposed legislation and of the overall trade policy dimensions of the bilateral agreement could be improved upon to the advantage of the U.S. position in the General Agreement on Tariffs and Trade and in the Kennedy round, as well as to the advantage of sound trade policy administration here at home. In the latter connection, we have already in this statement proposed an improvement in the scope of the President's annual report.

As for the relation of the agreement and this bill to overall U.S. trade policy principles, we believe that the duty-free treatment provided in this legislation should, in the first instance, be extended to all countries on a most-favored-nation basis on the condition that this duty-free treatment be made a part of the Kennedy round negotiations and that other major producing countries should be prepared to give similar treatment with respect to their imports of automotive vehicles and parts. If such reciprocity is not forthcoming, we would then be justified in denying those other countries most-favored-nation treatment with respect to the concessions made in the agreement with Canada. We recognize, of course, that the agreement is open ended, permitting other countries to benefit from its provisions provided they subscribe to all its rules. However, this is not quite the same as the most-favored-nation step which we are here proposing.

What we have recommended would make it easier to obtain a GATT waiver, which is required, permitting us to deny most favored national privileges, if such a waiver should become necessary. Psychologically, having granted most-favored-nation treatment subject to reciprocity, we would be in a better position to get such a waiver in the event that reciprocity is not forthcoming. We also feel that such a tactic might have a stimulating effect on the overall prospects for a successful Kennedy round. Presenting these views regarding most favored nation and the possibility of making it conditional on satisfactory reciprocity received from other major suppliers does not mean that our committee no longer favors the general principle of unconditional most favored nation.

We do favor this principle as being in the best interest of the United States and of the worldwide trading community. There are situations, however, and proposed free trade between industrialized countries is such a situation, where an exception from unconditional most favored nation might be justified.

I think I would like to add at this point that the issue I am here discussing is one that was very much under discussion in connection with the Trade Expansion Act of 1962 and there was certainly much soul searching in many quarters as to whether there should be any falling away in any respect from the most-favored-nation treatment.

The argument in favor of such a possible modification was perhaps an essential tool in the development of the Common Market, which after all is a customs union.

With respect to the adjustment assistance provisions of the bill, we have some hesitation about placing in the executive branch responsibility for judgments regarding serious dislocation within the industry and the attribution of its primary cause—primary factor is the language used in this bill.

We feel that the role of the Tariff Commission in the adjustment assistance process is important and that bypassing that independent Commission might lead to decisions overly influenced by political forces. In this connection we feel that any American companies which have reasons to fear dislocation as a result of this agreement should be invited by the Government to discuss their problems with the Department of Commerce and the Small Business Administration in order to attempt to cope with any such problems before they reach serious proportions. It is our view that the Tariff Commission should then be responsible for making the kinds of judgments described in the adjustment assistance provisions of this bill. Similarly, problems of possible dislocation among workers should be dealt with on time through appropriate programs of labor retraining and other instrumentalities. Such steps should be taken to forestall any possible escalation of a problem into the kind of dislocation for which the adjustment assistance provisions of the bill have provided.

We would like to make it clear, in conclusion, that we support the bill whether or not the recommendations we have made to improve the bill are adopted. We strongly recommend, however, that our recommendations and assumptions be carefully noted by your committee, because we believe that these recommendations are important to the achievement of a soundly based U.S. policy both with respect to trade in automotive products as well as the totality of U.S. foreign trade policy.

I want to add just a word on the references to the Anti-Dumping Act and section 303 of the Tariff Act. I would not say this is our committee's position particularly, but I have given some thought to it recently.

I am inclined to doubt whether those two acts are repealed by the passage of this act as far as Canada is concerned, unless specifically so stated, and the chairman evidently was considering the possibility of including a statement that they were not repealed specifically.

Mr. McCauley's argument, it seemed to me, is really against free trade across the border. We cannot agree that the removal of a 17½ percent tariff by Canada is somehow a subsidy to U.S. manufacturers. We certainly approve of the objective involved in the treaty. So far as his figures are concerned, the XYZ corporation to which he was selling a transmission which is \$85 in the United States, 100 plus 25 percent tariff, \$125 in Canada, \$25 remitted, leaving it \$100 to \$85 and then a saving of the \$15 out of the 25 percent somehow applied to the \$85 in the United States, so that the price becomes the same at \$100 each—well, this assumes that there is no competition in transmissions and this is certainly something that cannot be accepted.

When Mr. Curtis suggests that this provides for a cartel, there are thousands of parts manufacturers involved in this thing and it is hard for us to see how it becomes a cartel agreement when they are the ones who are being involved in the operation as independent and very competing parts manufacturers.

It may be that they are under pressure to cut their prices to what their competitor offers, but that has been said in the press about some of the companies that are involved. I have never seen any actual direct evidence of it but, in any event, I do not see that his figures really are directly applicable.

The question was asked of him whether there are other objectors. The testimony of Mr. Chapman this morning I think indicated that of their suppliers, all of them were either for it or neutral, they knew of none of their suppliers who were opposed to it. The only one that I have seen has appeared in the press, the Ingersoll Co., which makes steering mechanisms. They objected to this on the ground that Chrysler might buy a million dollars worth of steering mechanisms from the Ingersoll Canadian subsidiary rather than from the Ingersoll American subsidiary. Outside of that we have not heard objections from other parts manufacturers unless the testimony of the gentleman from Arkansas covers also those that supply these independent parts. There has been surprisingly little objection from this end, we would say, so far as we had opportunity to observe it.

In conclusion, we simply want to say that we do support the agreement, preferably with the changes we have suggested.

The CHAIRMAN. Thank you.

Any questions?

Mr. Curtis?

Mr. CURTIS. Thank you, Mr. Chairman.

I am a little bit surprised that your organization is approving something that is a violation of GATT, but let me go to the specific.

When I mentioned a cartel arrangement, I was not talking about the parts manufacturers, I was talking about the U.S. auto companies.

I might say that the base of this whole thing seems to be these agreements or undertakings which actually fix quotas among the three automobile companies for the amount of new Canadian production they will use by making their cars. You do not need any tariff mechanism if you just simply have an agreement that a certain percentage of the production shall be produced in Canada.

I can imagine nothing more regressive in trade and I am shocked to hear the testimony. I would be glad for you to comment. I will put it this way. I do not know whether it is true, but the allegations are that this whole thing is based on the agreements that have been reached between the Canadian Government and the Canadian auto companies.

Mr. TAFT. Each agreement is separate. There is no agreement between the four companies, as far as I know.

Mr. CURTIS. No, but independently and each one by agreement says in effect that if you will produce so much of your product using Canadian sources, then this will happen.

Mr. TAFT. The only agreement as I understand it is that they will attempt to increase their own production so as to contribute toward the \$250 million within a period of 3 years. I do not know of any plan—

Mr. CURTIS. It relates to the amount of use of Canadian production because if they do not, then this 60-percent figure will go up to 70, or whatever it is.

Mr. TAFT. I would say, however, that there is nothing in the agreements as I have seen them—and we have only seen the summary, we have not seen what is in the agreements—it may be what you are saying is correct but the summary given in Mr. Chapman's testimony is not such as to justify it, in our opinion.

There is no agreement between the four companies, each one will have to determine its own mix. Each one will have to determine how much it can increase since the \$250 million is based roughly on the increases each year in automobile sales and also in the proportion of value added in Canada which is increased at an even more rapid rate than the automobile purchases in Canada and therefore well ahead of any such rate in the United States.

The amount is something that ought to be well within reach.

Mr. CURTIS. It is based on a quota arrangement by Canada, and it is done by individual deals with the companies. I can't imagine anything that is more in violation of the principles of GATT.

Mr. TAFT. Well, sir, we have stated in our testimony we have not seen the agreements. The only thing that would modify that is the summary of the agreement in Mr. Chapman's testimony, perhaps others also, but that is the only one I have seen and looked at. I have not gone over it with care.

Mr. CURTIS. The agreements have now been made of record here and I personally would appreciate it if your organization——

Mr. TAFT. We would be very happy to do so.

Mr. CURTIS. I had a different approach on this myself until some of this testimony came in.

Mr. TAFT. We will be very happy to do so. We had not seen them when we wrote the testimony. I only looked at the one summary.

The CHAIRMAN. Would you yield?

I think, Mr. Taft, what concerns many of us about this whole matter is the question that Mr. Curtis is asking: To what extent does the commitment, if it is a commitment, of the automobile manufacturers to purchase parts in Canada related to the extent of some \$260 million in addition to the normal increase in purchase in Canada limit the desirability that you and I see in the overall approach to this of establishing a free trade zone in automobiles?

Regardless of economics and everything else, the manufacturers of automobiles in Canada have to buy from Canadian sources that much additional, and that means that to that extent there is this free trade arrangement wherein our parts producers have access or the opportunity of participating.

Now, Mr. Curtis describes that as a quota arrangement. It, of course could be almost as obnoxious if our understanding of it is correct as a quota arrangement and you and I could very well——

Mr. TAFT. We oppose quota arrangements as much as anybody else. but I would like to point, out, Mr. Chairman, you have just repeated by implication what we believed was erroneous in Mr. McCauley's testimony, and that is that it is based on the increases in sales. We pointed out that the increase in value added in Canada over the period even before these Orders in Council is a greater percentage of increase than it is on the sales of automobiles in Canada.

The CHAIRMAN. Thank you.

Mr. TAFT. I think that is something into which the committee should certainly look. It is that source that will add more than \$250 million in 3 years.

The CHAIRMAN. We have no fear of competing with Canadian producers in parts; all that I have talked to have told me that. Regardless of economics, there is some arrangement that is being entered into by the Canadian automobile producers that so much will be pur-

chased in Canada regardless; then to that extent, that is discrimination against our own producers of light parts.

Mr. TAFT. We do not understand that to be the case, sir. We would be happy to make an analysis of the actual agreements. Are the texts available in the committee?

The CHAIRMAN. I am going to see to it that these agreements that have been offered for the record are reproduced so that they will be available for distribution.

Mr. TAFT. Because they were not available to us; they were not until today. All I have seen is only the summary in one man's testimony.

The CHAIRMAN. If you will wait just a little bit after you testify, we will have copies.

Mr. TAFT. I have to leave, but someone on my staff will be here.

(The following letter was received by the committee:)

COMMITTEE FOR A NATIONAL TRADE POLICY, INC.,
Washington, D.C., May 11, 1965.

Hon. WILBUR D. MILLS,
Chairman, Ways and Means Committee,
House of Representatives, Washington, D.C.

DEAR MR. CHAIRMAN: During my testimony before your committee on May 8 with respect to the automotive agreement with Canada, I was asked to present my views concerning the letters of undertaking which the various manufacturers of automotive vehicles in Canada had submitted to the Canadian Government. In my testimony I said that our committee supported H.R. 6960 on the assumption that these letters were consistent with the objective of the agreement which the two Governments have negotiated.

I have now examined these letters, as published by your committee, and I find nothing in them which necessarily conflicts with the purpose of the agreement. In the first place, these letters should be looked upon strictly as what they have actually been called, "letters of undertaking." They are not legally binding contracts, but rather letters of intent to maintain certain proportionate levels of production in Canada. These commitments cannot properly be regarded as quotas. Production of automobiles is a complex process involving many parts and many suppliers. Quotas normally refer to specific items. In the case of these letters, the reference is to the value of a composite of items. This permits flexibility—resulting in concentration on cost advantages on both sides of the border—to the ultimate benefit of all consumers.

As I said in my testimony, we have no way of predicting how the various companies are going to arrange their production mixes on both sides of the border, and the changed patterns of two-way trade that will result. We believe, however, that a proper framework should be provided within which both countries may move as rapidly as possible toward the complete freedom of automotive trade which is the objective of these arrangements.

I would also like to take this opportunity to restate our view that the progress made under the Canadian-American agreement should be kept under continuing review by our Government and that the President should be required, as part of the annual report he is to make under the provisions of the bill, to assess at the end of each annual period the actual effect of the agreement on automotive trade, the prospects for the future, and the effects which changes in this trade may have on the various sectors of the U.S. automotive industry. He should also include recommendations which the administration may want to propose for the purpose of facilitating whatever adjustment may be necessary and in other ways maximizing the benefits of the program. In this way the actual implementation of the letters of undertaking will be better understood. To the extent that their implementation may conflict with the objective of the agreement, steps can be taken, in consultation with U.S. automotive companies and with the Canadian Government, with a view to bringing these undertakings more closely into line with the stated objectives of the program.

I also want to take this opportunity to invite your attention to the other proposals in my testimony, particularly our view regarding adjustment assistance and also with respect to the desirability of applying most-favored-nation treatment as soon as possible to all countries on the condition that the United States

obtain appropriate reciprocity in the Kennedy round from the major producers of automotive vehicles and parts. The time and the circumstances should be left to the discretion of the President, and he should be required to report to the Congress on such actions as he may take in this regard.

One final point—at the time of my testimony there was some confusion in my mind as to the duration of the proposed legislation. I am now clear that it is permanent legislation and, in my opinion, that is as should be. No company can be expected confidently to plan investment or production in either country unless there is reasonable assurance that the ground rules will remain essentially the same.

With best wishes.

Sincerely yours,

CHARLES P. TAFT, *General Counsel.*

Mr. CURTIS. Mr. Taft, as I understand it, the reduction of the tariffs are contingent upon—

Mr. TAFT. Production in Canada as stated in the agreement.

Mr. CURTIS. By Canada, which would be a quota. That is only an allegation. I don't know myself.

Mr. TAFT. So it is alleged.

Mr. CURTIS. That is what I have been fearful of and that is what some of the testimony indicates: that that is what it is. If it is, then it looks like—

Mr. TAFT. We would like to know it ourselves.

Mr. BYRNES. As I understand the situation, you, for instance, Mr. Taft, could not go up into Canada and import cars.

Mr. TAFT. No.

Mr. BYRNES. Only the manufacturer.

Mr. TAFT. Yes; individuals cannot.

Mr. BYRNES. Only the manufacturer. The manufacturers get it duty free if they comply with these conditions that they have agreed to.

Mr. TAFT. Yes.

Mr. BYRNES. If anybody can find any free trade in that, I would like to know where it is. It may be a better arrangement than the current arrangement, but if you can see that is freeing up trade, I don't see where it is.

Mr. TAFT. It frees it up to some degree. The objective is clearly free trade and we have insisted on the fact that this is an agreement which has to be restudied, and ought to be restudied certainly in a 3-year period. I don't think you can take a lesser period because you probably do not have enough experience to tell within less than 3 years.

The CHAIRMAN. Any further questions?

Thank you, Mr. Taft.

Mr. Watts?

Mr. WATTS. Mr. Taft, as I understand the legislation, it provides that in the future the President of the United States will have an opportunity at any time he sees fit to make similar arrangements, similar agreements, with any other country that wants to have such an arrangement with him.

Mr. TAFT. That is correct.

Mr. WATTS. Does your organization see any objection to that?

Mr. TAFT. We not only don't, sir, we suggest that it ought to be put in now and that we should extend also the most-favored-nation treatment to any other nations if in the Kennedy round they propose to give us consideration for it by reducing their restrictions on the importation of automobiles and automobile parts. That is in my statement here.

Mr. WATTS. I was not here to hear your statement. As I understand the legislation, it does not extend most-favored-nation treatment.

Mr. TAFT. No, but most favored nation goes further than what is in the bill.

Mr. WATTS. But you see no objection to that provision in the bill.

Mr. TAFT. We are very strongly for it, as well as the permission, sir, to extend this to replacement parts. I understand the objection to this was not from the United States, particularly; it was from Canada.

The CHAIRMAN. Mr. Keogh?

Mr. KEOGH. Those other agreements are, however, restricted to motor vehicles and fabricated components so it is not a broad authority for the President to enter into agreements with anybody about any product.

Mr. WATTS. It is automobiles.

Mr. TAFT. The point is, he does have authority to extend the Canadian part to replacement parts, which is not covered under the original provisions. We are for that.

Mr. WATTS. Does he not have authority under the bill to also make a similar agreement with reference to automobiles with some other country.

Mr. TAFT. Yes; those are defined. I have not read that portion of the bill. I think that is correct.

Mr. WATTS. Is that correct? He does have authority?

Mr. TAFT. The major suppliers.

Mr. WATTS. If you want to make such an agreement with Germany or France or any other country?

Mr. TAFT. Yes; it is the Common Market, United Kingdom, and Japan.

Mr. WATTS. Or any other country?

Mr. TAFT. Or any others, but those are the major suppliers.

Mr. WATTS. Well, if they supply someone—

Mr. TAFT. Yes; Sweden some.

Mr. WATTS. And your organization sees no objection?

Mr. TAFT. We are in favor of it.

Mr. WATTS. You don't think he should come back to Congress or report his action to Congress?

Mr. TAFT. We have suggested that his annual report should be substantially increased in its coverage by reporting what has happened to the automotive trade each year as far as they can get statistics on it, and I suppose they can try to get them so that the Congress will know each year as they go along what is happening in this.

Now, that detail is not called for in this bill; we suggest that it should be. We spelled that out in our statement so that you will be able to keep track of it not just at the end of 3 years, but each year.

Mr. WATTS. This provision for looking at it again in 1968 is a look by the President, I assume.

Mr. TAFT. It is a look by the Congress.

Mr. WATTS. A look by the Congress?

Mr. TAFT. It only has a 3-year life and that applies both to the provisions as to the trade and as to provisions of adjustment assistance.

Mr. WATTS. That gives some safeguard.

Mr. TAFT. Yes; and that is why we think there should be an annual report.

The CHAIRMAN. Mr. Taft, do you want to correct your statement? The legislation is not limited by the 3-year period.

Mr. TAFT. I am sorry. My mistake, sir.

Mr. WATTS. What happens after the 3 years?

Mr. TAFT. I assume it comes back to this committee.

The CHAIRMAN. The legislation is permanent. The agreement is subject to review at the end of 3 years, as I understand it.

Mr. TAFT. Yes, by the Executive, but I can't really distinguish that if you are requiring an annual report. If you put as much detail in as we think you should as a requirement from the Executive, it seems to me it can be reviewed by this committee any time and it should be in order to make sure it is working toward the objectives of the agreement and of this bill.

Mr. WATTS. That is true of any piece of legislation.

Mr. TAFT. Yes. This is one that has so much detail and involving so many large facets that you ought to keep on top of it each year.

Mr. WATTS. I agree, but since it is permanent legislation, I assume that the look to it at the end of 3 years will be a look to it by the Canadian officials and by the U.S. officials, and then under this legislature the President could look at it.

Mr. TAFT. I am a legislator myself and a member of the city council. We do not stop looking at it.

The CHAIRMAN. I wanted to ask the departmental people why this legislation should not be for 3 years when the agreement itself appears to be of a 3-year duration. It is not a 3-year duration, I understand.

Thank you again, Mr. Taft, for coming to the committee. You are always helpful in these matters. We appreciate your doing so.

Mr. TAFT. Thank you.

The CHAIRMAN. Mr. Levine, we will be right back.

(A short recess was taken.)

The CHAIRMAN. The committee will please be in order.

Mr. Levine, identify yourself for the record.

STATEMENT OF ALLAN L. LEVINE, PRESIDENT, AUTOMOTIVE SERVICE INDUSTRY ASSOCIATION

Mr. LEVINE. Allan L. Levine, of Lowell, Mass., I am executive vice president of Towers Motor Parts Corp., a wholesaler of automotive replacement parts.

The CHAIRMAN. We are pleased to have you with us today. You may proceed.

Mr. LEVINE. I am appearing here today in my capacity as the elected president of the Automotive Service Industry Association. Our members are primarily interested in the replacement parts segment of the automotive industry, with respect to this proposed adoption of free trade in new vehicles and parts for installation as original equipment in new vehicles, between the United States and Canada.

First, I should like to state that the Automotive Service Industry Association is a national trade association speaking on behalf of the entire independent automotive service industry—from manufacturer, through distributor, jobber, and garage repairman.

It has a membership of over 5,000 manufacturers, rebuilders, warehouse distributors, and wholesalers of automotive replacement parts, tools, equipment, chemicals, paint, refinishing materials, supplies, and accessories. Affiliated with it are Automotive Booster Clubs International, whose members are manufacturers' sales representatives, and Independent Garage Owners of America, whose members are engaged in the servicing and repair of automobiles. ASIA thus represents a combined direct and affiliated membership of approximately 20,000 automotive firms, located in all 50 States, and employing over 400,000 people in the automotive service industry.

We are here today to consider legislation designed to implement an Executive agreement which has been presented as establishing free trade between the United States and Canada in new motor vehicles and in parts to be used as original equipment in new motor vehicles.

The present proposed agreement does not extend to parts manufactured for replacement use, although the proposed legislation does allow the President to negotiate an extension in the future that will cover replacement parts as well as new parts.

But it is extremely doubtful if this authorized free trade extension to cover replacement parts will ever be brought about; the fact of the matter is that the Canadians do not want free trade in replacement parts, because the greater efficiency of American parts manufacturers, made possible by longer production runs and a much larger market, would make their entry into the Canadian market a disaster to Canadian independent manufacturers.

Actually, this proposed legislation is not a free-trade agreement except in a very limited sense. What we are really considering is a special agreement between the Canadian Government and the large vehicle manufacturers, whereby there will be free trade between the American and Canadian divisions of these same large companies in return for certain commitments, the details of which we did not at this moment of this writing know. However, we sincerely hope the full facts will be brought to light in the course of these hearings.

I would like to digress from my prepared statement to say we have tried with very limited success to get the meat of these agreements or understandings or letter of intent between the Canadian subsidiaries of the vehicle manufacturers because we wanted to know just what was agreed to.

It is interesting to note that it was not until last Saturday as a result of agitation in the Canadian Parliament, that these agreements came into the public record by virtue of the fact as I understood from yesterday's testimony here, that they were tabled in Parliament and thus became public information.

I do not think that the details are varied to any great extent from what had been revealed through press reports, and I think that it confirms our feeling that there were definite commitments on the part of the manufacturers to maintain the amount of production in Canada that they have and to increase over the next 3 years by some \$260 million the production of vehicles in Canada and that this confirms our understanding that this is a special deal, this is not free trade, this is an agreement for free trade between the Canadian and the American divisions of the same company in return for definite commitments on the part of the companies to maintain and increase their production in Canada.

The Automotive Service Industry Association is extremely hesitant to endorse any legislation that would have the effect of increasing the percentage of the market in new cars or in replacement parts penetrated by the so-called Big Three.

Back in 1961, ASIA did a considerable amount of research in the distribution problems developing in the automotive aftermarket; that is, in the market for replacement parts.

The findings of a special subcommittee brought out the fact that the vehicle manufacturers were particularly anxious to further expand their portion of the automotive aftermarket regardless of any resulting adverse effect on the independent manufacturer and wholesaler alike. These facts are further borne out in a brief filed before the Bureau of Customs, U.S. Treasury, on behalf of Automotive Service Industry Association, on July 14, 1964, from which I quote as follows:

In recent years, these companies (the U.S. motor vehicle manufacturers—principally General Motors, Ford, and Chrysler but including truck manufacturers such as International Harvester and others) have moved into the replacement parts market on a large scale.

General Motors, through its United Motors Service Division, has been offering Delco batteries, ignition and electrical system parts and accessories to the independent replacement trade. Much of this was offered originally for GM cars only, but more and more replacement parts and accessories are being offered for non-GM vehicles.

Ford entered the non-Ford replacement market in 1961 when it severed a 50-year relationship with Champion Sparkplug Co., purchased the spark plug and battery divisions of Auto-Lite with that well-known name, and commenced its presently growing program of offering spark plugs, batteries, shock absorbers, ignition parts, and carburetor parts for non-Ford vehicles to the independent replacement trade.

Chrysler followed suit in 1963, launching a program designed to penetrate the replacement market with a growing number of products for non-Chrysler vehicles under the name of Mopar for sale through market channels other than the car dealers.

"The Big Three" vehicle manufacturers, consequently, are now competing regularly and directly with many small independent parts manufacturers and wholesalers, offering replacement parts for cars other than those of their own manufacture, through both wholesale and car dealer channels. They are also the direct beneficiaries of the Canadian plan here considered (reference being to the Canadian Order-in-Council P.C. 1963- 1/1544 of October 22, 1963), a fact which puts their U.S. independent competitors at a considerable disadvantage.

What is happening is that Ford, General Motors, and Chrysler have all expanded the divisions of those companies which are in the replacement part end of the market. Officials of General Motors have publicly stated that where they control 50 percent of the market in new vehicles, their aim was to eventually control 50 percent of the replacement market.

This has been brought about in the case of UMS, which is a division of General Motors, by changing its former method of operation where it only manufactured parts for General Motors' vehicles.

A few years ago, it changed that and it now at least distributes parts for Ford and Chrysler and Rambler and so on and other cars which it never did before.

Now, it is not actually manufacturing these parts itself for General Motors. In other words, if you buy a Delco-Remy division point for Chevrolet it has presumably been manufactured for General Motors for a General Motors vehicle.

If you buy it otherwise, the chances are that it has been manufactured by an independent manufacturer who is manufacturing for General Motors.

This not only goes as far as General Motors is concerned, Ford has the same program and Chrysler has the same program through its Mopar Division. Therefore it is the position of the Automotive Service Industry Association representing as we do independent manufacturers and independent wholesalers of replacement parts, that the proposed legislation would aid and assist the large American vehicle manufacturers to implement their publicly stated purpose of vastly increasing their percentage of penetration of the market, that this would occur to the detriment of the independent American replacement parts manufacturer and to the detriment of the efficiency and competitiveness of the automotive service replacement parts industry as a whole. This is the first major reason for our opposition to H.R. 6960.

There is a second reason for our opposition which I should like to present at this time. We who are in the replacement parts end of the business are extremely concerned about the inherent and incipient threat of parts manufactured in Canada entering this country free of duty because of their being declared destined for installation in new vehicles as original equipment, but actually being diverted into the replacement parts market.

If the present legislation is enacted, we cannot doubt that the motor vehicle manufacturers will have to increase production in their Canadian facilities, since this is apparently their part of the bargain. It is more than likely that this material can find its way into the replacement market.

Let us not forget that each of the Big Three, as I have explained before, has a distribution setup for replacement parts; I find no safeguards in the proposed legislation that would effectively prevent duty-free parts imported from Canada from being diverted into replacement channels.

It is true that the proposed legislation provides for penalties should such irregularities come to light. My point is that it will be difficult if not impossible to prove the existence of such irregularities no matter how widespread or flagrant such activity might become. For the fact is that it is impossible to designate whether a part used both as original equipment and as a replacement part, as examples of which dual function I might mention spark plugs, oil filters, universal joints, sealed beam headlamps, and so forth, is actually slated for original equipment or replacement until it is used in one function or the other.

We recognize that the legislation contains penalties for diversion of imported tariff-free parts to the aftermarket. However, both the U.S. Tariff Commission and the Treasury Department have repeatedly confirmed the impossibility of policing so-called end use. That is the reason that strenuous efforts were made to eliminate, to the fullest extent possible, end-use classifications when the tariff schedule was last revised.

On this point, we specifically ask this committee to determine what steps the Bureau of Customs has now devised which will effectively prevent original use items from ending in the replacement market. In the past, they have declared that statements of end-use intentions on

customs invoices were not adequate safeguards. We concur in that appraisal.

There is a third matter which I would like briefly to indicate as a major reason for the objection to this act, and that is the probably adverse effect on our gold reserve situation. The officials of the Commerce Department have indicated that Canadian production of the motor vehicle manufacturers' subsidiaries will probably be increased by more intensive use of existing Canadian facilities, rather than by expansion of Canadian plant facilities, but it is obvious that this is the interpretation of the U.S. Commerce Department and not necessarily that of the Canadian Government.

Incidentally, I noticed in the testimony of the representative of Ford Motor Co. this morning that in reviewing the possible and probable sequences he said it is entirely probable that plant capacity in Canada will have to be expanded as a result of the commitment made by the major vehicle manufacturers to increase their production by \$260 million over the next 3 years.

It is the Canadian Government that has called the shots on this deal from the very beginning. It was their Minister of Commerce who first put into effect the tariff-remission scheme in October 1963 to encourage vehicle manufacturers to increase their exports from Canada.

It was their agreement with the Canadian subsidiaries of the motor vehicle manufacturers, the details of which we got to some extent today, but whose disclosure we anticipate today in the testimony of representatives of the vehicle manufacturers, that was an indispensable requirement before the Canadian Government would agree to implement the so-called free trade agreement which is a replacement for their former scheme of tariff remission.

So we would want to know the details of the agreements between the Canadian Government and the Canadian motor vehicle manufacturer subsidiaries before we would make a judgment as to whether or not this agreement will call for increased investment in plants in Canada, which I submit now it will.

We are aware of the Canadian trade deficit with the United States which amounted to approximately \$475 million in 1963, and we sympathize with the efforts of the Canadian Government to do something about its problem. But we in the United States have our problems, too, in international balance of payments, and no one is more aware of this than President Johnson. In a news item appearing in the New York Times of February 21, 1965, entitled "The Week in Finance" by Albert L. Krause, President Johnson is quoted as renewing his plea for cooperation in solving the Nation's international payments difficulties to some 370 businessmen he invited to the White House, Thursday, February 18, 1965. He asked the businessmen "to set up balance-of-payments accounts for their own companies and trim their net export of dollars to 15 to 20 percent." He also asked the Nation's banks "to cut their lending overseas to \$500 million from \$2 billion last year," a move that by itself would halve last year's \$3 billion payment deficit.

That the President is aware of the necessity of defending the position of the dollar by lessening the payments gap is encouraging. That the Big Three of the motor vehicle manufacturers will heed President Johnson's plea to trim their net export of dollars is questionable.

Their past performance is perhaps enlightening: in 1960, Ford Motor Co.'s purchase of minority stockholdings in its English subsidiary represented 51.4 percent of all direct investment from the United States in Britain that year.

In 1965, this year, General Motors has announced plans to proceed with its new \$100 million assembly plant in Antwerp, Belgium. The rationale in justification of the above move by GM is unconvincing; Mr. Frederick G. Donner, chairman of General Motors, said the new plant would be financed principally from GM oversea earnings and borrowings. Certainly earnings left abroad for investment in foreign plant capacity contribute to the U.S. dollar deficit just as much as would the actual payment of U.S. funds for oversea investment.

At any rate, the present agreement for so-called free trade in new motor vehicles and parts, involving, as it must, increased production by and eventual expansion of the Canadian subsidiaries of the major motor vehicle manufacturers, with consequent outflow of gold, is inconsistent with President Johnson's appeal to U.S. businessmen to "trim their export dollars"; perhaps this inconsistency is explainable only by the rather facetious assertion that in many matters there is one rule for the major vehicle manufacturers and another rule for everyone else.

Let me repeat again the three points which are the basis for the objection to the proposed legislation by ASIA: First, the proposed legislation will lead to a Government-sponsored competitive advantage for the Big Three over the independent automotive replacement parts manufacturer; second, the proposed legislation contains inadequate safeguards with respect to the possible diversion of duty-free imports of parts from the OEM—that is the original equipment manufacturer—to the replacement market; and third, the proposed legislation will contribute to the increased investment of American dollars abroad at a time when President Johnson is sensibly calling upon American businessmen to exercise restraint and care in making such foreign loans or investments.

There are a few more points I should like to make. Our independent manufacturers of parts—and by the term "independent" I refer to those manufacturers who are not subsidiaries of the vehicle manufacturers—can be divided into four categories: Those who manufacture in this country solely for replacement; second, those who made replacement parts in this country for distribution through wholesaler channels, but who also supply the same parts to the vehicle manufacturers for original equipment; third, those who manufacture in this country solely for original equipment and sell only to the vehicle manufacturer; and finally, those who manufacture both for replacement and for original equipment and who have plants both in Canada and in the United States.

Most independent manufacturers make both for replacement and for original equipment. They are understandably reluctant to take any public posture that will put them in the bad graces of their vehicle manufacturer customers with consequent threat to the possibility of getting future contracts for original equipment.

I say that slowly so I emphasize.

May I comment on the distinguished gentleman who preceded me, Mr. Charles Taft. He argued the fact that to his knowledge there was

only one independent parts manufacturer, the Ingersoll Co. of Canada, that had voiced any objection to the adoption of this. Let me tell you gentlemen, there are the independent manufacturers who are not 5-cent outfits, but compared to the Big Three they are very small potatoes, indeed, and for a major part of their sales they depend on contracts which they enter into annually on competitive bidding with the Big Three to supply these things. I am talking about things like piston rings, axles, valves, crankshafts, and so on. Many of these companies also make replacement parts.

Now you do not need the replacement parts probably for a year or 2 years, or 3 years, after the vehicle has been run on the road and wears out a little bit, and by that time that big production run is all over with so the manufacturer needs this big production run in contract with the major vehicle manufacturers in order to get his investment out of the way, to pay for his dies and tools and castings and investment and inventory until such time as there becomes a demand for replacement parts 3, 4, 5 years later.

They are very hungry for this business. If they do not get it, they can't survive.

It is a very natural thing for the independent manufacturers not to want to bite the hand that feeds them, and that is why you have not heard from the independent manufacturers about why they are opposed to this bill.

Privately they are worried, they have made private representations to Members of Congress as individuals, and they have stated their concern that this act is detrimental to the welfare of independent manufacturers. And what hurts the independent manufacturer will hurt the independent wholesaler whom my association represents.

We thrive in this industry because we have many competitive sources of supply. We do not want the Big Three to become so strong that we will have to depend on them alone or go out of business.

It is interesting to note that in England, the parts manufacturer must make a clear-cut decision; he must either sell to the vehicle manufacturer alone, for original equipment use and for subsequent replacement sales through the vehicle manufacturers' distribution setup; or he can manufacture for independent wholesalers alone.

Now if I gave you that choice, which one would you take? There is only one you would have to take. The economics of the situation force him to adopt the vehicle manufacturers' route; because the stability of the replacement parts market is dependent upon a manufacturer getting long run, original equipment production for which he has to bid competitively at close to or below his cost, in order to cover his investment in slow moving, widespread inventories of replacement parts.

We independent wholesalers do not want to see our position in the industry destroyed. For that reason we support the independent manufacturer, and urge that the Big Three vehicle manufacturers not be allowed unlimited scope of operation.

I might say I was slightly amused by some of the questioning I believe of Mr. Kendall, distinguished counsel of Chrysler Corp., as to what effect this pact would have on his suppliers. This is like asking a wolf what effect it is going to have on the sheep.

Many witnesses have approved the adoption of this bill on the grounds that it provides for free trade between Canada and the

United States, limited at present but probable of expansion in the future. If this were a genuine bill for free trade in automobiles and parts, our association might be less concerned than it is. But this is not such a bill. Let me quote from a press release by Chrysler Canada, Ltd., dated January 26, 1965, of a speech by R. W. Todgham, its president, before the St. Thomas (Ontario) Board of Trade.

The press release states:

The act did not eliminate all tariffs on automobiles and automobile parts, Mr. Todgham pointed out. What it did was establish a set of conditions under which tariffs would be removed, provided Canadian motor vehicle manufacturers met certain commitments.

The Canadian motor vehicle manufacturers—collectively—have 3 years to boost their Canadian production by this amount (\$260 million) but once at this level must maintain it on a yearly basis, he added.

Debunking the misconceptions about the pact, Mr. Todgham reiterated that obviously its terms do not provide free trade; its fixed ratio of Canadian production to Canadian sales prevented unlimited importation of American-made automobiles duty free; there was nothing in it that would make possible any immediate price cuts.

In closing, I would like to return to the original purpose of the trade agreement. Notwithstanding terms such as "rationalization," "common North American market," "longer and hence more efficient production runs in Canada," the prime purpose of the agreement from the Canadian viewpoint is to balance trade in automobiles and parts for automobiles. The concept that trade between countries should be balanced commodity by commodity is quite novel, and one which Canada surely would not wish to extend to lumber.

If Canadian automobile production matched the efficiency of United States manufacturers, Canada would have removed tariffs unconditionally, as the United States proposes to do. The United States independent parts manufacturers do not fear competition from Canadian producers, but they are apprehensive about a Government-sponsored combination of the Canadian Government and the Canadian subsidiaries of the major vehicle manufacturers. It is in the light of these facts that we ask that a careful consideration be given to the proposed legislation.

I thank you very much.

Mr. KING (presiding). Are there any questions?

Mr. BATTIN. I have just a couple.

Mr. KING. Mr. Battin.

Mr. BATTIN. I think it was said yesterday that since there has been abolishment of the tariff on car prices that car prices in part—have prices gone down as far as you know, to the consumer in Canada?

Mr. LEVINE. To my knowledge, there has been no reduction of prices on either vehicles or parts in Canada.

Mr. BATTIN. The testimony this morning indicated that there was a higher cost of building a car in Canada. If cars were assembled in Canada and imported to this country, would they be sold at the Canadian price or would they be sold at the United States price?

Mr. LEVINE. Sir, I can only quote newspaper reports but from newspaper reports there has been announced a plan whereby Ford of Canada is exporting from Canada into the western New York market around Buffalo, 400 Fords a month. These Fords are completely manufactured in Canada, so presumably the cost basis would be the Canadian cost.

Yet, the Ford Motor Co. of Canada has sold these vehicles to its parent company, the Ford Motor Co. of the United States, at a lower price, must have sold them at a lower price because the Ford Motor Co. is then distributing these vehicles through its dealers to American consumers at the American price.

Mr. BATTIN. Of course, this raises the interesting question of if they are selling them in this country at a price lower than at the cost to produce, it would be a violation of the Anti-Dumping Act, would it not?

Mr. LEVINE. It raises a very interesting question and I would probably like to have an answer sometime.

Mr. BATTIN. Thank you.

Mr. KING. I had several questions, Mr. Levine.

If there is no objection, because of the hour of the day, I would present them to you and if you wish you can answer them.

Mr. LEVINE. I will be happy to look at them, sir, you want those in the record, I assume, and we will not bring them before the entire committee at this time.

(The following material was received by the committee:)

AUTOMOTIVE SERVICE INDUSTRY ASSOCIATION,
Chicago, Ill., May 5, 1965.

HON. WILBUR D. MILLS,
Chairman, House Committee on Ways and Means,
U.S. House of Representatives, Washington, D.C.

DEAR MR. CHAIRMAN: Following my testimony before the Committee on Ways and Means on April 28, 1965, the Honorable Cecil King presented six written questions and requested that responses be provided in writing. Mr. King's questions and my answers are enclosed.

Respectfully submitted.

ALLAN L. LEVINE, *President.*

Enclosure.

Question No. 1. Mr. Levine, on page 7 of your statement you state that independent parts manufacturers are reluctant to take any public position on this legislation. Will you explain that a little more?

Answer. In many cases, a major vehicle manufacturer is the prime customer of many independent parts manufacturers. That independent manufacturer does not wish to rupture a relationship which could result in the loss of his largest customer. Human nature being what it is, experience has taught these manufacturers that contracts can be lost through what the vehicle manufacturers call noncooperation. In fact, they cannot openly oppose this legislation for the same reason they want the Automotive Service Industry Association to oppose it; namely, the fear of losing a large customer.

Question No. 2. The main thrust of your statement is that independent parts manufacturers in the United States will lose contracts to Canada. Why is that?

Answer. The unseen part of the United States-Canadian agreement is the obligation of vehicle manufacturers to purchase or to manufacture more parts in Canada. Canada has such guarantees from the vehicle manufacturers and will impose penalties if the commitments are not fulfilled. Yet the vehicle manufacturers can cancel contracts in the United States without incurring penalties.

Question No. 3. You state the purpose of the trade agreement is to correct Canada's trade deficit with the United States. Will this agreement result in a flood of parts from Canada, even though parts cost more in Canada?

Answer. Yes, it most certainly will. Through exports to the United States, the vehicle manufacturers will meet their production commitments to the Canadian Government and continue their privilege to import parts and cars into Canada duty free. This tariff savings will more than offset the increased costs of parts in Canada.

Question No. 4. I note that you refer to commitments made by the vehicle manufacturers to the Canadian Government. Which vehicle manufacturers made the commitments—the U.S. parent companies or the Canadian subsidiaries?

Answer. The commitments are so sweeping, that it is inconceivable that they were not approved in advance by the parent companies—the U.S. companies. These commitments are for the sole purpose of increasing exports to the United States. The Canadian subsidiaries could not promise to export parts from Canada without parallel agreements from the parent companies to purchase them for the U.S. market.

Question No. 5. How would free trade with Canada in new parts affect the replacement market?

Answer. The vehicle manufacturers have the exclusive authority to determine which parts will cross the United States-Canadian border duty free, thus increasing the market for those parts. This market increase will result in a longer production run and will reduce the unit cost. The manufacturer with the lowest unit cost has the advantage for sales to the replacement market.

Question No. 6. Mr. Levine, as I understand it, Canada abolished tariffs last January. Have the independent parts manufacturers received many orders for shipments to the Canadian market? In other words, what has happened to United States-Canadian automotive trade since last January?

Answer. I know of no U.S. parts manufacturers who have received orders for shipment to the Canadian market. The most alarming report has been that Chrysler will import 80,000 vehicles from Canada in 1966. Inasmuch as both General Motors and Ford are much larger than Chrysler, the total imports for 1966 could well run into 300,000 to 400,000 vehicles. This is exactly what the whole scheme is designed to do, and we believe, if approved, it will have that result.

Mr. KING. There are no further questions.

Mr. LEVINE. Thank you very much.

Mr. KING. The committee will now adjourn and resume at 10 a.m. tomorrow morning.

(Whereupon, at 4:55 p.m., the committee recessed, to reconvene at 10 a.m., Thursday, April 29, 1965.)

UNITED STATES-CANADA AUTOMOTIVE PRODUCTS AGREEMENT

THURSDAY, APRIL 29, 1965

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
Washington, D.C.

The committee met at 10 a.m., pursuant to recess, in the committee room, Longworth House Office Building.

Mr. WATTS (presiding). The first witness is Mr. Leonard Woodcock, vice president, United Automobile, Aerospace & Agricultural Implement Workers of America.

Come around, Mr. Woodcock. We are glad to hear from you.

Will you please give us your full name, the capacity in which you appear, who accompanies you?

STATEMENT OF LEONARD WOODCOCK, VICE PRESIDENT, UNITED AUTOMOBILE, AEROSPACE & AGRICULTURAL IMPLEMENT WORKERS OF AMERICA (AFL-CIO); ACCOMPANIED BY NAT WEINBERG, DIRECTOR, SPECIAL PROJECTS DEPARTMENT

Mr. WOODCOCK. My name, gentlemen, is Leonard Woodcock, vice president of the United Automobile Workers, and with me is Mr. Nat Weinberg, director of our union's special projects department.

Mr. WATTS. We are glad to have you.

Mr. WOODCOCK. Our union, as you know, represents a very high percentage of workers represented on both sides of the border affected by the legislation. We are here today to state that the UAW fully supports the principle of removing artificial trade barriers in what can be one great industry operating for the benefit of both countries.

Mr. WATTS. I was wondering, due to the length of your statement, if you would like to summarize it?

Mr. WOODCOCK. We will summarize it.

Mr. WATTS. We will put the entire statement in the record.

(Mr. Woodcock's full statement follows:)

STATEMENT OF LEONARD WOODCOCK, VICE PRESIDENT, UNITED AUTOMOBILE, AEROSPACE & AGRICULTURAL IMPLEMENT WORKERS OF AMERICA (AFL-CIO)

Representing autoworkers on both sides of the United States-Canadian border, we in the UAW fully support the principle of removing artificial trade barriers between the Canadian and American sections of the auto industry.

Our support for this principle was given specific expression long before the Automotive Products Agreement was negotiated. In 1960, when a Royal Commission appointed by the Canadian Government was looking into the problems of the auto industry in that country, the Canadian section of the UAW made a proposal to the Royal Commission similar in many respects to the provisions

which were finally embodied in the agreement. The primary concept, of increasing the size of the total North American market for cars by permitting increased efficiency, reducing costs and prices, and thereby increasing sales, was essentially the same. We also proposed such necessary safeguards, including adjustment assistance for workers. With these safeguards, the Automotive Product Agreement can be of great benefit to both the United States and Canada. What it will mean, very briefly, is that the companies producing motor vehicles and parts will no longer be required to carry on their U.S. and Canadian operations as two separate entities, but will be able to integrate them with resulting economies on both sides of the border. This will be of the greatest benefit to the Canadian section of the industry, but there will be advantages also for the United States.

THE BACKGROUND

A major problem of the Canadian auto industry has been the restricted size of the Canadian market. With a population which represents 9 percent of the combined United-States-Canadian population, Canada is estimated by the Canadian authorities to consume only about $7\frac{1}{2}$ percent of combined United States-Canadian automotive production, and to produce only about 4 percent of the combined total. Despite the relatively small size of the Canadian market, it would be possible for Canadian production to be as efficient as that of the United States if the operations of the United States and Canadian plants could be fully integrated—producing some products in the U.S. plants and some in Canadian plants, but in both cases serving the entire North American market. This would be facilitated by the fact that almost all of the Canadian motor vehicle companies and a large proportion of the parts companies are subsidiaries of U.S. corporations.

Unfortunately, integration has been impossible in the past because of tariff barriers in both countries. Cars and parts made in Canada would have had to hurdle a tariff to enter the United States, and until recently were for all practical purposes unable to do so. In Canada, in spite of a still higher tariff barrier, it proved uneconomic because of low volume to manufacture the more expensive car models, and these were imported in spite of the tariff. In addition, there were many essential parts which the Canadian Government recognized could not be economically produced in the limited volume which the Canadian market would absorb, and these have been permitted entry from the United States duty free or at relatively low tariff rates, provided the manufacturers met a specified standard of "Canadian content" in the cars as a whole; on other parts, tariffs have been as high as 25 percent.

Behind these tariff walls a Canadian auto industry has developed, but since production of both vehicles and parts has been in relatively short runs, it has been impossible to gain the economies of scale achieved in the United States. Comparable cost figures are not publicly available, since none of the Canadian companies publish separate financial statements on their Canadian operations, but the corporations claim that costs are substantially higher in spite of the fact that autoworkers' average earnings in Canada are more than 40 cents an hour below U.S. levels in the plants of the car manufacturing corporations, and the gap in the parts industry is even wider. Certainly prices to Canadian new-car buyers are higher—a differential before excise and sales taxes which reflects approximately the $17\frac{1}{2}$ -percent tariff on cars imported from the United States.

The higher prices which Canadians have had to pay for their cars, combined with a considerably smaller average annual income per person, have served to restrict the size of the Canadian car market still further. In 1964, for example, Canadians purchased 1 new car, domestic or imported, for each 81.2 persons in the population, compared with 1 new car sold for each 23.8 persons in the United States.

Canada's inability to compete in the U.S. automotive market, combined with the necessity for her to import a large volume of vehicles and parts, has meant that until recently the automotive trade between our two countries has been almost exclusively a one-way street. As the following table shows, Canada's unfavorable balance of trade in motor vehicles and parts with the United States has represented an increasing proportion of her total unfavorable balance of international payments—rising from 39.2 percent of the total in 1961 to 98.7 in 1963, and actually accounting for more than the total imbalance in 1964.

Canadian automotive trade with United States compared with Canadian balance of international payments on current account 1961-64

[Dollar amounts in millions]

	Automotive trade with United States ¹			Net balance of international payments ²	Percent, col. (3) as a percent of col. (4)
	Exports (1)	Imports (2)	Balance (3)		
1961.....	\$12	\$398	-\$386	-\$982	39.3
1962.....	15	505	-490	-874	56.1
1963.....	37	587	-550	-857	98.7
1964.....	97	681	-584	-453	128.9

¹ Trade in motor vehicles and parts.² Excludes loans, investments, and other payments on capital account.

Source: Dominion Bureau of Statistics.

The table is based upon Canadian trade figures so as to assure comparability of the automotive trade data with the Canadian balance-of-payments data. U.S. Department of Commerce data on automotive trade between Canada and the United States differ in some respects, largely because many parts and accessories which actually go into motor vehicles are not classified as automotive products under the U.S. tariff schedule, but the pattern shown by the Department of Commerce figures is essentially the same as that of the Canadian data.

By 1962, Canada's balance-of-payments problem had become so serious that it forced a devaluation of the Canadian dollar. The Canadian Government attempted to remedy the situation by unilateral action. In October 1962 when the duty-free status granted to automatic transmissions from the United States was about to expire, the Canadian Government issued a regulation which had the effect of restoring the duty on transmissions, with a proviso that, for every dollar by which the auto manufacturers increased their exports to the United States, they could bring in an equal value of U.S.-made transmissions duty free. The result was a substantial increase in automotive exports to this country, and in 1963 the provision was broadened so that for a given increase in exports over a specified base period the Canadian auto companies could import duty free an equal value of automotive products of any kind.

As the table shows, this did result in a sharp increase in Canadian automotive exports to the United States—from \$15 million in 1962 to \$37 million in 1963 and \$97 million in 1964. Automotive sales from the United States to Canada, however, increased by even larger amounts.

This remission of duty was considered in this country to be a bounty on Canadian exports to the United States in violation of our tariff laws, and legal proceedings were initiated which would probably have resulted in retaliatory action under our laws if the situation had not been completely changed by the negotiation of the Automotive Products Agreement.

We in the UAW felt from the very beginning that the unilateral action taken by the Canadian Government was a serious mistake, simply because it was unilateral. It was bound to produce an adverse reaction in this country, leading to protective retaliation. The end result could very well have been a succession of such retaliatory actions first by one country, then by the other, resulting in no economic benefit to anyone and the creation of an unfriendly relationship between two countries which, in their own mutual interest, ought to preserve the closest friendship and cooperation. In fact, when a Canadian Royal commissioner was investigating the problem in 1961, UAW representatives strongly urged him not to recommend unilateral action on the part of the Canadian Government, on just these grounds. We recognized that Canada had a problem, but we felt it could be solved only on the basis of a negotiated arrangement between the two countries, and we are very happy that this course was finally followed.

BOTH COUNTRIES WILL BENEFIT FROM THE AGREEMENT

As previously stated, we believe that with the necessary safeguards the agreement will be of great benefit to both the United States and Canada. It will mean, in effect, that instead of a U.S. auto industry producing primarily for the U.S. market, and a Canadian auto industry producing for the Canadian

market, we will have taken a long step toward an international industry producing for the entire North American market.

The benefits of this arrangement for the Canadian auto industry are very obvious, but there will be significant benefits for the United States as well. On the Canadian side, for example, instead of producing scores of different models and a broad range of parts in relatively short and costly production runs, the Canadian plants will be able to produce a much smaller number of models and parts for sale in both Canada and the United States, while importing from U.S. plants the models and parts for which Canadian production will be discontinued. The result will be a significant reduction in costs, and if these savings are passed on to Canadian car buyers, as they must be if the purpose of the agreement is to be achieved, there will be a corresponding increase in the size of the Canadian market.

As President Johnson has pointed out, the United States will also benefit through the increased efficiency which the agreement makes possible. Manufacturers who in the past have served only the U.S. market will now be able to compete in the Canadian market as well, and, while they will also face competition from Canada, the final result will be a more efficient use of resources. The President has also pointed out that U.S. plants serving the Canadian market will benefit from the faster growth of that market.

The probable extent of that growth is difficult to forecast. As pointed out earlier, Canadians last year bought 1 new car for every 31.2 people in the country, compared with 1 for every 23.8 people in the United States. Yet Canadians, with their much more widely scattered population, have an even greater need for cars than we have. If Canadian consumption of new cars per capita were to increase to the U.S. level, this would represent a more-than-30-percent expansion of the Canadian market, in which U.S. firms serving that market would share.

An increase of that extent probably will not come immediately, partly because Canadian prices are not being cut at once, and partly because the lower level of Canadian incomes is also a factor restricting the size of its car market. The Honorable G. Griffith Johnson, Assistant Secretary of State for Economic Affairs, who testified on the agreement before the Canadian Affairs Subcommittee of the Senate Foreign Relations Committee, expressed the opinion, however, that growth would be substantial.

He said: "The Canadian market is growing twice as fast as in the United States and is likely to continue at a rapid rate since the number of automobiles per capita in Canada is now much smaller than in the United States and since the incomes of Canadians are growing at a rate as fast or faster than in the United States."

Agreements such as this, especially if they are extended to other major industries, will help to raise Canadian incomes as well as making price cuts possible. Once the Canadian auto industry, for example, has achieved levels of efficiency comparable to our own, there will be absolutely no justification for the wide differential which now exists between Canadian and United States auto workers' wages, and you may be sure that the Canadian workers will insist on bringing their wages up to the U.S. level. In doing so, they will help to make Canada a better market for United States as well as Canadian products.

A further benefit to this country, less concrete but just as important, lies in the friendly solution of a difficult problem which threatened to create hard feeling between us and a valued friend and neighbor. The United States does not have so many reliable friends in the world today that we can afford to lose any of them. Canada's friendship is especially important to us, not only because Canada is our best customer in the world, but because we are inevitably and inseparably dependent on one another for the defense of this continent. Neither of us can effectively defend ourselves without the active cooperation of the other.

We could not ignore Canada's problem. At the same time, the problem could not be solved by unilateral action, as the Canadian Government quickly found out. If the United States had responded to that action merely by taking the retaliatory measures provided for under our law, we could have generated deep animosity among our good Canadian friends. Instead, we have established the means of strengthening our friendship and reinforcing the ties that bind us together.

We in the UAW hope that this agreement will be a great success. We share the hope of the Administration, expressed by Assistant Secretary Johnson, that, when the agreement is reviewed by the United States and Canadian Govern-

ments in 3 years time, "further steps can be taken toward the goal of removal of all restrictions upon free trade in the automotive products industry."

We would go farther than that. We hope the agreement will prove so patently beneficial to both countries that the principle embodied in it will be extended to other industries—that it will become but the first of many steps toward a general removal of trade barriers between the United States and Canada. Such a development would be nothing new in the history of our two countries. Over a century ago, the Reciprocity Treaty of 1854 removed all tariffs on a long list of goods passing in either direction across the United States-Canadian border. It was terminated largely as a result of the frictions engendered by the Civil War. But half a century later, in 1911, a reciprocity agreement was signed by the United States and Canadian Governments which again would have eliminated or drastically reduced the duties on a long list of commodities. Unfortunately, the intemperate zeal of some supporters of the agreement in this country raised fears in Canada that we were planning to annex their country; it became a political issue in an election in which the government that had signed the agreement was defeated, and the agreement was thereby killed.

The automotive products agreement carries no such threat. And we are very happy to see that the bill now before you meets a problem which could otherwise arise under the agreement—that of providing adjustment assistance for American workers who may be injured through loss of employment as a consequence of the agreement.

ADVERSELY AFFECTED WORKERS MUST BE PROTECTED

UAW support for this bill is possible only because of the adjustment provisions in it. In the absence of such provisions we would have no alternative but to oppose it. The UAW's insistence on adequate adjustment assistance for workers was expressed as soon as negotiation of the agreement was announced. At that time UAW President Walter Reuther issued a statement, welcoming the agreement in principle. In that statement he said:

"In order to achieve the more rational division of labor made possible by the agreement, there will inevitably be some readjustment of production within and between both countries. This could result in hardship and dislocations for some groups of auto workers and their families unless effective steps are taken to tide them over the transition period.

"We call upon both governments to assure that adequate protection will be provided for those who would otherwise be adversely affected by the agreement. It would be wholly improper for the auto corporations and car consumers to enjoy the benefits of the agreement while auto workers and their families bear the burden and sacrifices resulting from it."

"In comparable situations the European Coal and Steel Community provides 'tide-over' allowances for workers that run as high as 100 percent of wages plus other forms of assistance including supplementation or reduced wages received on new jobs. Workers may continue to receive assistance from the community for up to 2 years."

The bill does not go that far, and we will say frankly that it does not go as far in the provision of adjustment assistance as it should. We believe it should provide full protection against any loss or injury suffered by adversely affected workers, instead of the partial protection which is proposed. But we support entirely the principle behind such protection.

The position of any workers who may be adversely affected is essentially the same as that of workers who are affected by any other Government action taken for the good of the country as a whole—for example, the closing of defense bases. Last November, when he announced the closing of 95 military bases, affecting some 68,000 jobs, Secretary of Defense Robert McNamara emphasized the Government's acceptance of responsibility for the affected workers. In his press release dated November 18, 1964, Secretary McNamara said:

"We will also protect the individual employees who are affected by these moves. We will guarantee a job opportunity for every career employee affected by a closure. If the new job opportunity requires a move to another location, the Government will arrange for payment of transportation and moving expenses for the employee and his family. We also arrange for retraining at our expense and continue employees' salaries while they are being retrained."

The Government's responsibility to workers affected by the closing of bases stemmed from the fact that these were Government decisions made in order to

achieve desired economies, reduce Government expenditures of taxpayers' money, and so benefit the whole country. The position of workers adversely affected under this agreement will be so different. The agreement has been entered into because our Government believed it would bring benefits to our country and to the people of our country. But, in achieving those benefits for the people as a whole, adjustments will undoubtedly have to be made within the auto industry. The whole concept of increased efficiency through greater specialization implies such adjustments. Some jobs will be moved to Canada—and the American workers who formerly did those jobs will not be able to and probably would not want to move with them. Other jobs will be moved from Canada to the United States—but it will be sheer coincidence, in most cases, if the communities to which jobs move from Canada are the same as the communities from which jobs have moved away to Canada. Employment with one company may decline while it increases with another. Even if the worker who loses his job as a result of the agreement is offered another one, it may be in a different community, and a worker and his family cannot pull up stakes and move to another community except at considerable financial cost—not to mention human costs. In other cases, workers may require retraining before they can fill available jobs.

In short, jobs will be lost, new jobs will have to be found, and other adjustments will have to be made by auto workers in this country as side effects of an action taken by our Government for the benefit of the country as a whole. Then why should not the cost of these dislocations be considered simply as one of the costs of a national benefit, to be paid for by the Nation? Why should the price of progress for the many be economic loss and suffering for these individuals who, by sheer accident, happen to find their lives and work disrupted by it? We believe there would be every justification for adopting the principle that any worker adversely affected by the implementation of the automotive products agreement ought to be protected in full against any consequent financial loss.

This bill does not go nearly that far. But it does recognize the principle that the country has a special obligation to workers who are adversely affected by the Automotive Products Agreement, and on that basis we support it.

WHY NOT RELY ON TRADE EXPANSION ACT?

The question may be asked, why was it necessary to write special assistance provisions into this bill? Why not rely on the provisions of the Trade Expansion Act, especially since this bill provides that the forms and amounts of assistance provided for under Trade Expansion Act shall apply?

These are two reasons why this was necessary. First, the Automotive Products Agreement is quite different from the kind of trade agreement which Trade Expansion Act was intended to cover, and which might result in injury to workers or firms through increased imports of some products. This agreement is expected to lead to a substantial reintegration of automotive production as between Canada and the United States. In consequence, workers and firms may be injured, not only through an increase in imports to the United States, but through a decrease in the export of certain products when Canadian production is commenced, or by reallocation of operations within this country or between the United States and Canada as a direct result of the operation of the agreement. Such situations would not come under the provisions of Trade Expansion Act at all.

A second reason is simply that the administration of the Trade Expansion Act has been such a total failure as far as adjustment assistance is concerned that, if auto workers and small firms had to rely on Trade Expansion Act for protection, they would in fact have no protection at all. If no assistance had been offered but that available under the provisions of Trade Expansion Act, we would have had no alternative but to oppose the agreement.

Under Trade Expansion Act, assistance cannot be provided until the Tariff Commission has made a determination that injury has been suffered. To date there have been 18 requests for such determinations—5 of them initiated by workers, 4 by individual firms, and 9 by representatives of industry groups. In not 1 of those 18 cases has the Tariff Commission made a favorable determination.

The AFL-CIO as a whole and the UAW conditioned support of the Trade Expansion Act upon the inclusion of adjustment assistance provisions. Now that the assistance promised under that act has proved illusory, it will be impossible to mobilize future labor movement support for trade liberalization

unless and until it is demonstrated that meaningful assistance can and will be provided. The Automotive Products Agreement could be the first step toward free trade between the United States and Canada in a wide variety of products leading ultimately to a North American common market. It would be tragic if that possibility were destroyed by failure to provide meaningful adjustment assistance to workers affected by the Automotive Products Agreement.

Another difficulty with the Trade Expansion Act is that it provides no specific guidelines for determining whether or not an injury has been suffered. It provides that:

"(2) In the case of a petition by a group of workers for a determination of eligibility to apply for adjustment assistance under chapter 3, the Tariff Commission shall promptly make an investigation to determine whether, as a result in major part of concessions granted under trade agreements, an article like or directly competitive with an article produced by such workers' firm, or an appropriate subdivision thereof, is being imported into the United States in such increased quantities as to cause, or threaten to cause, unemployment or underemployment of a significant number of proportion of the workers of such firm or subdivision.

"(3) For purposes of paragraphs (1) and (2), increased imports shall be considered to cause, or threaten to cause, serious injury to a firm or unemployment or underemployment, as the case may be, when the Tariff Commission finds that such increased imports have been the major factor in causing, or threatening to cause, such injury or unemployment or underemployment."

This is very vague language, indeed, and leaves the determination as to whether the adjustment provisions may be invoked almost entirely to the judgment of the Commission.

By contrast, this bill in section 302 spells out specific tests for determining whether or not the assistance provisions shall come into effect. The action is not automatic. It would be possible for the President or his representatives to find that the tests had technically been met but that the operation of the agreement had not been the primary factor in causing the dislocation. In that case, assistance would not be provided. On the other hand, if there is undoubted dislocation but the tests have not been fully met, a determination can still be made, based on the facts of the case, that the operation of the agreement has been the primary factor in causing or threatening to cause such dislocation. In that case, assistance will be available.

This, we believe, provides the proper combination of specific guidelines plus reasonable flexibility which such legislation should have. In the great majority of cases, application of the tests spelled out in the bill will determine satisfactorily whether or not assistance should be provided. But, where there are exceptions, either way, they are provided for.

It is impossible, of course, for all the circumstances affecting a determination to be spelled out in the legislation. Much reliance must still be placed on administrative interpretation. It is essential that, in making such interpretations, primary consideration be given to finding the correct answer to the question: "Has a worker been injured by the operation of the agreement?" If he has, he should be entitled to assistance.

One of the criteria for a determination relates, for example, to decreases in the production of a firm "or an appropriate subdivision thereof." It may be necessary at times to determine what constitutes "an appropriate subdivision." Could it be, for example, a group of machines in one area of a plant? We believe it could, if production of the part produced by those machines had been moved to Canada, or if a Canadian firm had captured all or part of the market for such parts.

Another test requires that a determination be made as to whether one product is "like or directly competitive with" another if it "performs the same function." But it will be necessary to go beyond this. A Cadillac and a Corvair are both motor cars, for example, but it cannot be argued that a Corvair performs all the functions of a Cadillac, or that they are directly competitive with one another. To state the problem in more specific terms, one of the effects of the agreement will certainly be a reduction of the number of models produced in Canadian plants, some models being discontinued and Canadian demand for them being met entirely from United States plants, while other models are produced in Canada for sale in both countries. The net result could be that the same number of cars were still produced in Canada, and the same number in the United States; but production at a specific United States plant might be

cut, and its workers laid off, because the particular market supplied by that plant was now being met in part from a Canadian plant.

The bill provides two possible means of meeting this problem. One would be an interpretation of the term "like or directly competitive with" in section 302(b), which would recognize differences between makes and models. The other would be application of section 302(d), which specifically provides for provision of assistance where the tests of section 302(b) have not been met, but where it is found that:

"The operation of the agreement has nevertheless been the primary factor in causing or threatening to cause dislocation of the firm or group of workers."

This is a good example of that combination of specific guidelines with provision for administrative flexibility which is an essential element of this bill.

Administrative flexibility will also be necessary in determining whether U.S. production or exports have decreased, or U.S. imports have increased "appreciably." A figure of 5 percent has been suggested as a yardstick. But the whole Canadian market equals less than 10 percent of United States production. Thus, a United States firm supplying half the Canadian market for a given automotive product might lose that business as a result of the operation of this agreement, and the result might be a decline of less than 5 percent in the volume of United States production; but the operation of the agreement would certainly have been the primary factor in a resulting layoff of workers by that firm. Here, again, such a situation would be covered in any case under section 302(d).

It is obviously impossible to anticipate all of the problems of interpretation and application of the bill that will arise. It is of primary importance, therefore, that the intention of the bill is made perfectly clear—that the ultimate basis for determining whether or not a worker is entitled to assistance is whether he has been dislocated or is threatened with dislocation, and whether the operation of the agreement has been the primary factor causing that dislocation. The present language of the bill does make that clear, and we support it on that basis.

CANADA SHOWS DANGER OF FAILURE TO ACT

An example of the kind of dislocation for which assistance is needed has arisen in Canada. Just last week Ford of Canada notified Mr. George Burt, the UAW's Canadian regional director, that as a result of the agreement, it will begin next month to lay off workers in its Windsor plant in order to retool and modernize the plant for production of manual transmissions. By August, 1,600 workers are expected to be on indefinite layoff which may last until next January, and present levels of employment may not be restored until about this time next year.

No provision for assistance similar to that provided for in this bill is in effect in Canada. When an arrangement resembling that of the present agreement was first proposed, UAW members in Canada insisted that any such plan must include provision for adjustment assistance to workers. These demands were renewed last year, when it became known that United States-Canadian negotiations were underway, and were continued when the agreement was announced. So far, the Canadian Government has failed to act. On April 22, after the Ford announcement, Mr. Burt declared in a statement:

"We have today asked Labor Minister MacEachen to immediately put before the Cabinet draft legislation for presentation to Parliament."

"This legislation should provide no less than what the Johnson administration has presently before the U.S. Congress."

United States members of the UAW join with their Canadian brothers in demanding that adequate protection be provided on both sides of the border without unnecessary delay, and the International UAW will give every possible support to its Canadian members in this matter.

UNITED STATES HAS INTEREST IN CANADIAN ADJUSTMENT ASSISTANCE

Under ordinary circumstances the enactment of legislation providing for the welfare of Canadian workers would be a purely internal Canadian matter in which the United States Government should not interfere. But the plight of the Ford workers in Windsor is a direct consequence of an agreement negotiated between Canada and the United States. Our Government has a very important and perfect legitimate interest in what happens to those workers. For continued

failure of the Canadian Government to provide for them will raise grave doubts not only in Canada but in the United States as well about the agreement as a whole. It will certainly jeopardize the fulfillment of hopes that the principle of the Automotive Products Agreement will be extended to other industries. For, if the Canadian Government refuses to step up to its responsibilities toward those adversely affected by that agreement, Canadian workers can be expected to oppose vigorously the negotiation of other similar agreements.

It is unfortunate that provision for adjustment assistance on both sides of the border was not made a part of the agreement, as was done in the Rome Treaty establishing the European Common Market. That precedent, however, establishes the fact that the United States does have a proper interest in adjustment assistance provisions for Canadian workers. Under these circumstances, it would be entirely appropriate for the administration to make known to the Canadian Government the concern of the United States that adequate safeguards be provided for Canadian workers affected by the agreement. We urge the administration to do so.

ASSISTANCE NOT UNEMPLOYMENT INSURANCE

One other point in connection with the assistance provisions must not be neglected. The legislative history of the Trade Expansion Act makes it clear that Congress intended the rate of such payments to be more liberal than the rates of benefit generally provided for under unemployment insurance, because it recognized a special obligation, over and above the provision of unemployment insurance, to compensate the worker for the injury done to him through loss of job protection. This committee, in fact, specified that such compensation "is not unemployment insurance." The committee's report stated:

"Your committee believes that the scale of trade readjustment allowances is appropriate in view of the fact that the finding that the unemployment was caused by increased imports resulting from the removal, in whole or in part, of tariff protection implies that continuation of the prior tariff would have provided full job protection. *This worker assistance is, therefore, in the nature of an adjustment to conditions brought about by removal of prior job protection and is not unemployment insurance.* The terms of worker assistance are not meant to be precedents for the unemployment insurance program." [Emphasis added.]

The bill reported out by the committee, to which the above language referred, provided for trade readjustment allowances supplementary to State unemployment insurance benefits. Thus the benefits described as "not unemployment insurance" were the amounts which were to be added by the Federal Government to State benefits to bring the total up to the level prescribed in the Trade Expansion Act. In other words, the difference between regular unemployment insurance benefits and the benefit level provided under the Trade Expansion Act was intended to be, not unemployment insurance, but in the nature of compensation to the affected worker for the injury done him by removal of prior job protection provided by a tariff.

The Senate Finance Committee was apparently impressed by arguments presented concerning the legal obstacles to supplementation of State unemployment insurance benefits. It therefore reported out an amended version of the House bill providing for payment of the full amount of the trade readjustment allowance out of Federal funds—including an amount equivalent to the State benefit the worker would have received under the House bill. This change, which was made for purely technical reasons, does not alter the fact that the amount in excess of the State benefit is not unemployment insurance but compensation for injury done the worker by removal of his prior job protection. The principle remains the same as under the House bill—that there is a special national obligation, over and above the provision of regular unemployment insurance, to compensate those who are harmed by an action taken by the Government in the national interest.

PRACTICAL CONSEQUENCES ARE IMPORTANT

The distinction is important, because of the very practical consequences which would have flowed from a failure of Congress to take this position. A major purpose of this bill is to provide assistance to autoworkers who are injured by loss of employment as a consequence of the agreement. The overwhelming majority of such workers are employed under the terms of UAW agreements which include provisions for supplemental unemployment benefit (SUB) payments in supplementation of State unemployment insurance. Nearly all of the

agreements, including all of those with the major companies, provide that, subject to a ceiling on the amount of SUB payment, such payment shall supplement the worker's State system benefit (and earnings, if any) up to a specified level, equal to 62 percent of his weekly straight time pay plus \$1.50 for each of not more than four dependents. "State system" is defined so as to include systems for payment of unemployment insurance under Federal as well as State laws.

In the great majority of cases, the SUB plans will supplement unemployment insurance benefits to a level higher than that provided under this bill and the Trade Expansion Act. Therefore, if the full amount of assistance payment were considered to be a "State unemployment benefit," the higher level of such benefits, as compared with regular State benefits, would not change the total amount received by the laid off worker, but would serve only to reduce the amount of supplemental payment he received from the SUB trust fund. In that event, the purpose of this bill would be completely circumvented. It would be of no assistance whatever to workers laid off as a result of the operation of the agreement. That is certainly not the intent of Congress.

In some cases the consequences could be extremely bizarre. Under many SUB plans, when the amount in the SUB fund reaches a specified level, further contributions are accrued in a special account for the purpose of paying a bonus at Christmastime to employees who are actively at work or on short-term layoff or leave of absence at that time. Some of our major plans are now at or near that level of funding. In this case, therefore, if the assistance under the bill were considered to be merely a higher level of unemployment insurance, with a corresponding reduction in SUB payments, the final result would be that Government funds would have been used to provide larger Christmas bonuses to workers who had not been laid off, rather than needed assistance to workers who had been laid off.

An equally undesirable result would follow, of course, if Congress had intended that no part of the adjustment assistance was to be considered unemployment insurance. In that case, an affected worker would be able to collect adjustment assistance, and on top of that the full amount of SUB normally paid to a worker not receiving unemployment insurance. In a great many cases, the total of these two could exceed his normal weekly earnings.

This certainly was not the intent of Congress either, as is evident from the provision in the Trade Expansion Act that, if a worker has collected unemployment insurance, his assistance payment is to be reduced by an equal amount. We in the UAW certainly would not interpret our SUB agreements in a manner that would permit such an inequity, nor would we support any worker who sought such an interpretation in an appeal to the joint union-management board which administers each plan.

The intent of Congress is not to use Government funds for windfall Christmas bonuses to employed workers or excessive payments to dislocated workers. The intent of Congress is to compensate workers for the injury done them, and to do so by the provision of assistance which, to repeat again the words of this committee in 1962, is "in the nature of an adjustment to conditions brought about by removal of prior job protection;" and which, to the extent it exceeds the unemployment insurance the worker would otherwise be paid, "is not unemployment insurance." We are happy that Congress, and this committee in particular, had the foresight to make that so abundantly clear in the legislative history of the Trade Expansion Act.

PRICE REDUCTION AND MARKET EXPANSION

In his letter to Congress accompanying the bill, President Johnson outlined some of the benefits which the agreement would bring to this country. He said:

"U.S. manufacturers will be able to plan their production to make most efficient use of their plants, whether in Canada or the United States. They will save the price of the tariff, and, over the longer run, we will benefit from the faster growth in the Canadian market which lower prices will make possible." [Emphasis added.]

It is clear, therefore, that we in this country have a substantial stake in seeing to it that savings under the agreement are passed on to consumers in the form of price reductions. That applies not only to this country but also to Canada where a large part of the market for automotive products is supplied by U.S. firms and workers and where the most substantial savings can be made.

From the beginning, the UAW has taken the position that those savings must be passed on to consumers. In the statement welcoming the agreement, previously referred to, President Reuther said:

"The efficiencies resulting from such a division of labor will reduce production costs—particularly in Canada where low volume has prevented full and effective use of mass production techniques. The industry is morally obligated to pass those cost savings on to consumers in lower prices and thus expand sales and production. Lower prices would mean increased employment in both countries for autoworkers as well as workers in other industries which supply materials, parts and components used in auto factories."

The savings resulting from increased efficiency will be realized over a period of time, although it need not be a lengthy period. But there is one substantial saving which the auto companies are enjoying already—the elimination of the tariff, which in Canada was abolished immediately the agreement was announced. This is a significant saving; the amount of tariff which was paid in 1964 on imports of vehicles and parts from the United States is estimated at about \$50 million.

The auto manufacturers are making sure that every cent of those savings accrues to them. We have been informed, for example, that Canadian parts manufacturers, producing parts for the Canadian auto companies, who have to import some of their components from the United States, have been told by the companies that they must reduce their prices by the amount of tariff they save on imported components.

Unfortunately, the auto companies are not passing on any of their tariff saving to auto buyers. The prices of cars to Canadian buyers have not been cut by 1 cent, and the companies have made it clear that they have no intention of reducing prices now or in the near future. Even in the case of cars imported by the companies from their U.S. plants, where the operation of the agreement has meant the immediate elimination of a 17½-percent tariff, there has been no cut in prices. And it is reported that at least one company, Ford of Canada, is now exporting several hundred Canadian-made cars a month for sale in northern New York State at U.S. prices, while continuing to charge Canadian buyers the much higher Canadian price for the same car. This action by Ford has given rise to charges of "dumping."

From a number of sources in both the United States and Canada it is reported that the auto companies intend to keep for themselves the savings made possible under the agreement for a considerable time, and to use the funds for investment in new plants and facilities. The Toronto Financial Post, a leading Canadian business paper, reported on January 23, 1965:

"Although the 17½ to 25 percent tariff on autos and auto parts from the United States was dropped at the beginning of the week, there is to be no drop in the price of North American autos in Canada—not even those imported fully assembled from the United States—for some time to come, auto industry officials advise FP.

"In fact, don't look for any real action on prices until 1968 * * *

"The U.S. auto companies, through their Canadian subsidiaries, expect to use the money saved on the tariff—about \$50 million annually—by channeling it into new facilities in Canada.

"This is one of the sweeteners the Canadian Government used to get the necessary auto company commitments to support the plan. The Canadian Government has, in carefully worded statements, suggested that price drops are highly unlikely in the next 2 or 3 years while maintaining that after that Canadian and United States auto prices should move closer together."

Corroborative reports have also appeared in the Toronto Globe & Mail, the Windsor Star, the Canadian edition of Time and, in the United States, in Automotive News.

PRICES CAN BE CUT NOW

Price cuts are in order in Canada, applicable to all North American produced cars. It would be scarcely feasible for the companies to cut prices on imported models while maintaining prices on Canadian-made cars—though even the cost of producing these cars has been reduced by elimination of the tariff on U.S.-made parts. But there is no reason why the \$50 million total saving resulting from the elimination of tariffs should not be reflected in a flat percentage cut applying to all cars sold by U.S. subsidiaries in Canada, whether imported or domestically produced. Our very rough estimate is that this would permit an immediate price

cut of the order of 4 percent in the wholesale price, followed by additional cuts as increases in efficiency in the Canadian industry are also reflected in lower costs. The final result should be a reduction in Canadian car prices of about 17 or 18 percent, since the present price differential primarily reflects the 17½-percent Canadian tariff on finished cars imported from the United States.

One reason why the U.S. subsidiaries operating in Canada are not reducing their Canadian prices is because the agreement, and the amendment of Canadian tariff regulations flowing from it, provide only that the tariff is suspended with respect to importations made by Canadian motor vehicle manufacturers. Thus, when General Motors, Ford, or Chrysler brings a car from one of its U.S. plants into Canada for sale to a Canadian buyer, it is excused from payment of the 17½-percent tariff. But the individual Canadian who comes across to Detroit, buys the same car and tries to take it back home to Canada, will still have to pay the tariff. Thus there is no economic pressure on the companies to pass their tariff savings on to Canadian consumers. President Johnson said in his letter to Congress: "The automotive producers of the United States and Canada make up a single great North American industry."

The purpose of the agreement is to provide that industry with a single market. But there will be no such common market until there is genuinely free trade for the individual consumer as well as for the manufacturer.

A second factor in the situation is that implementation of the agreement in Canada has been tied to the exchange of confidential letters between the Canadian companies and the Canadian Government spelling out exactly what conditions the companies are required or have agreed to meet. These letters have been kept completely secret. Nothing is known about them, but as the above quotation from the Financial Post indicates, the companies have obviously made a bargain very favorable to themselves.

Action by the Canadian Government to force the companies to pass on the tariff saving is perfectly feasible and would not involve any element of price control. The Government would only have to reduce the tariff paid by consumers bringing in U.S.-made cars, so as to lower the price at which these cars are obtainable in Canada, and the Canadian companies would be required by ordinary competitive market forces to make corresponding cuts in the prices of cars they either produce in Canada or import into Canada.

We have no doubt that the Canadian price will eventually be reduced. If we were not sure of that, we would have little reason to support the agreement at all. But there is no reason why the Canadian companies or their U.S. parents should be permitted to pocket an immediate \$50 million per year, plus substantially greater sums in the future, as the price of their support.

A MATTER OF U.S. CONCERN

This is a matter which is of direct and immediate interest to United States as well as Canadian workers. Maintenance of artificially high prices on the Canadian market means the continuation of an artificial restriction on motor vehicle sales in Canada. This in turn means that there will be fewer auto industry jobs than there could and should be, not only in the Canadian auto plants, but in the U.S. auto plants which produce vehicles or parts for the Canadian market. This in turn will make more difficult the process of adjustment which this bill is intended to facilitate, by restricting the number of alternative job opportunities available to workers who are displaced or threatened with displacement.

We would urge that the administration make representations to the Canadian Government, pointing out that maintenance of artificially high prices serves only to enrich a handful of U.S. corporations at the expense of Canadian consumers and Canadian and United States workers.

The corporations are unlikely to plead inability to pass the tariff savings along to consumers. None of the major car producers publishes a separate financial statement of its Canadian operations, but they are believed to be highly profitable. A Toronto Globe & Mail report of January 19, 1965, stated:

"* * * the [Canadian] Government is acutely aware of the fact that behind the shelter of what appears to be an unduly high protective tariff wall, Canadian auto manufacturers were able to amass profits higher than those in virtually any other major Canadian industry.

"According to one estimate, the average annual profit of the auto manufacturers often has run to around 30 percent of their net worth, that is, the

total amount of their invested capital, compared with a more normal 10 to 15 percent return in other industries.

"While the balance sheets of most of the major producers are closed to public scrutiny, one Federal official estimated that in a good year the profit earned by one of the leading Canadian auto producers might run as high as 80 to 90 percent of invested capital."

We urge the committee to get the facts on this matter out into the open. While Congress, of course, has no jurisdiction over Canadian companies, it does have jurisdiction over their U.S. parents. We urge the committee to call before it the heads of the major U.S. auto companies and question them as to the profits of their Canadian subsidiaries. We urge also that they be asked to produce any agreements made or letters exchanged between their Canadian subsidiaries and the Canadian Government with respect to the automotive products agreement. Such action would be entirely within the powers of Congress as a condition of passing the bill which is necessary to implement the agreement. Apparently such a step has already been given consideration in administration circles. A Washington correspondent of the Toronto Globe & Mail reported in his paper on April 1, 1965, following the introduction of the bill:

"A State Department official suggested yesterday, however, that the terms of the undertakings would likely be made public by the U.S. parent companies if they were requested to provide them by either the House or Senate committees considering the legislation. 'After all, they are not a state secret,' he maintained, contrary to the view taken by the Canadian companies and the Canadian Government."

This is a matter of substantial concern to the United States, and it is directly pertinent to the bill now before you. We urge the committee to insist that the undertakings be produced.

CONCLUSION

In spite of the problems it presents, we believe that the automotive products agreement is sound in principle and that it will provide substantial benefits for both the United States and Canada. It will permit a more efficient use of productive resources and a corresponding reduction in costs. The sooner these cost savings are passed on to consumers, the sooner they will be reflected in rising sales and higher employment in the auto industries of both countries. These in turn will make their contribution to greater economic health and a rising standard of living.

We in the UAW recognize the fact that these changes cannot be made without requiring some adjustments in the auto industry, adjustments which will affect some of our members. We welcome the recognition given in this bill to the principle of special assistance for workers who may be adversely affected by such adjustments. We do not take the parochial view that private interests take precedence over the public interest. But we do insist that, when the national interest requires that the private interest of some individuals be subordinated to the general good, then the Nation has a special obligation to protect those individuals from harm. We would like to have seen the bill go further in that direction than it does, but we welcome the principle, we support the bill, and we urge approval of the bill by this committee.

Mr. Woodcock. Some workers in this country will inevitably be adversely affected by the operation of the intent of the legislation.

Our support, then, is possible only because of the adjustment provisions in the bill. As Mr. Reuther, our president, said when this was first proposed, it would be wholly improper, in our opinion, for the automobile corporations and car consumers to enjoy the benefits of the agreement—and there will be great benefits—while automobile workers and their families bear the burdens and sacrifices resulting from it.

We point to the fact that in a comparable situation, the European Coal and Steel Committee had provided "tideover" allowances for workers as high as 100 percent of wages, plus other forms of assistance, including supplementation of reduced wages on new jobs.

Now, this bill, of course, does not go that far. It does not go, obviously, as far as we think it should, but we support entirely the principle behind such protection.

As we have said, there can be no question that there will be dislocations, there will be burdens that will fall upon individual human beings because we cannot have increased efficiency through greater specialization without that happening. Some jobs are going to go to Canada and some jobs are going to come from Canada to the United States. It will be sheer happenstance if the movement of jobs from the United State to Canada is from the places where the jobs from Canada will move to the United States. It is much more likely that as the facilities are integrated, as components are made in one country or the other for the total market, the work that will fill that void will be in other plants and quite probably in other cities.

Now, we believe, therefore, that the compensations accruing to the human beings involved should be total and that there is every social reason why this should be so. Nevertheless, because this bill does involve a very vital principle, despite the fact it does not go as far as we think it should, we support it.

The question also arises, why not rely on the Trade Expansion Act for the mechanism by which to achieve this? Why was it necessary to write special assistance provisions into this bill? We think there are two reasons:

First, the automotive products agreement is quite different from the kind of trade agreements which the Trade Expansion Act was intended to cover. It is expected to lead to a further integration of automotive production as between Canada and the United States with the result that workers and firms may be injured not only through an increase in imports to the United States, but through a decrease in the export of certain products when Canadian production has commenced or by reallocation of operations within the country or between the United States and Canada as a direct result of the operation of this agreement. Such situations would not come under the provisions of the Trade Expansion Act at all.

The second reason, from our point of view, is simply that the administration of the Trade Expansion Act has been a total failure as far as adjustment assistance is concerned, so that, in our opinion, if auto workers and small firms had to rely on the Trade Expansion Act for protection, they would, in effect, have no protection at all. If no assistance were offered except that available under the provisions of the Trade Expansion Act, our union would have no alternative but to oppose the agreement.

Under the Trade Expansion Act, assistance, as we know, cannot be provided until the Tariff Commission has made a determination that injury has been suffered. To date there have been 18 requests, 5 from workers, 9 from firms, and 5 from industry groups. On not one of those 18 cases has the Tariff Commission made a favorable determination.

Tied in with this is a larger argument. Now that that assistance has proved illusory it will be impossible to mobilize future labor movement support for trade liberalization unless and until it is demonstrated that meaningful assistance can be provided.

We suggest therefore that this automotive products agreement could be the first step toward free trade between the United States and Canada in a wide variety of products leading ultimately and hopefully to a North American Common Market.

It would be tragic if that possibility were destroyed by denying adequate worker adjustment assistance in this agreement.

Another difficulty with the Trade Expansion Act: it provides no specific guidelines for determining whether or not an injury has been suffered. But in contrast this bill in section 302 does spell out specific tests for determining whether or not the assistance provisions shall come into effect.

Now the action is not automatic. It would be possible for the President or his representatives to find that the tests had been technically met but that the operation of the agreement had not been the primary factor in dislocations.

On the other hand, determination could be made that, based on the facts, the operation of the agreement had been the primary factor. In that event, assistance could be available. We believe this provides the proper combination of specific guidelines plus reasonable flexibility which such legislation should have.

The various tests that are spelled out, we think, go in large part to the possible eventualities that may be envisioned. We recognize the need for administrative discretion. We believe that the combination of guidelines and flexibility permitted by the bill would particularly go to the question of protecting the overwhelming number of very small enterprises which totally may employ substantially fewer people than those involved in the large enterprises affected by this legislation. Under the Trade Expansion Act they could have their security very much endangered.

Now we agree it is obviously impossible to anticipate all the problems of interpretation and application of the bill that may arise. It is therefore in our opinion of primary importance that the intention of this bill be made perfectly clear—that the ultimate basis for determining whether or not the worker is entitled to assistance is whether he has been dislocated or is threatened with dislocation, and whether the operation of the agreement has been the primary factor causing that dislocation.

We believe the present language of the bill makes that clear and we support it on that basis.

Now with regard to Canada, we think what is happening in Canada currently shows the danger of failure to act. There is no provision for assistance similar to that provided in this bill in effect in Canada.

At the present time we have had notice from the Ford Motor Co. of Canada, at Windsor, across the river from Detroit, that 1,600 workers will be furloughed by August for an indefinite period, at least for several months, while that plan is made ready for production in the light of this agreement.

Our Canadian regional director has requested the Labor Minister to draft legislation for presentation to Parliament to provide similar protection to Canadian workers.

Now we join, obviously, with our Canadian section in demanding that protection, but I think we need to take note of the fact that our membership in Canada is handicapped by the artificially high prices

of products they make, which operate to limit the total market and also, because of the limitation of price on that market to make them competitive with European imports to a much lesser extent than in the United States.

We believe that the force of the American example will bring that protection to our Canadian membership, and that is why, despite the lack of that protection at the present time in Canada, we are still supporting this legislation in the United States. But we believe that if Canada continues to refuse that protection, while they, too, will be affected by these dislocations, grave doubts will be felt on both sides of the border with respect to the efficacy of the agreement and we would believe then it would be entirely appropriate for our national administration to make known to the Canadian Government the concern of the United States that adequate safeguards be provided for Canadian workers affected by this agreement.

Obviously the major problem of the Canadian auto industry has been, as I have just said, the restricted size of the Canadian market. In a potential market that represents 9 percent of the combined population of the United States and Canada, Canada consumes only about 7½ percent of total automotive production and produces only about 4 percent of the combined total.

Now we firmly believe it will be possible as a result of this legislation for Canadian production to be as efficient as that of the United States if the operations of the United States and Canadian plants can be fully integrated; that integration should be relatively simple because of the large measure of common ownership on both sides of the border, and it will bring about a reduction in costs.

The companies claim that their costs are substantially higher in Canada despite the fact that in car manufacturing average earnings are more than 40 cents an hour below U.S. levels and even more in the parts plants. Certainly the prices to Canadian new car buyers are much higher than they are in the United States, roughly reflecting—before excise and sales taxes—the 17½ percent tariff on cars imported from the United States.

As a result of this, in 1964 Canadians purchased 1 new car—both domestic and imported—for each 31.2 persons in their population. This compares with 1 new car sold for each 23.8 persons in the United States, which indicates the possibility of growth in the Canadian market, apart from the potential growth of the combined markets as a result of this legislation.

We in UAW, as citizens concerned with the place in the world of the United States, are also troubled by the adverse balance of trade Canada has suffered, an imbalance to which the automotive industry has contributed disproportionately.

On page 4 of our statement we have a table which shows that just under 40 percent of Canada's total adverse balance of payments in 1961 was contributed by her unfavorable balance of trade in motor vehicles and parts with the United States.

In 1962, that percentage increased to 56.1 percent; in 1963, to almost 100 percent; and in 1964, as a matter of fact, the automotive trade imbalance was 128.9 percent of Canada's total payments imbalance. We cannot be unmindful of the consequences of that problem for one of our most steadfast friends on the international scene.

This adverse balance of payments has forced Canada to devalue the Canadian dollar. Canada issued in 1962 a regulation which had the effect of restoring the duty on transmissions, with a proviso that for every dollar by which the auto manufacturers increased their exports to the United States, they could bring in an equal value of U.S.-made transmissions duty free.

The result was a substantial increase in automotive exports to this country. At the same time this remission of duty was considered by the United States to be a bounty on Canadian exports to the United States in violation of our tariff laws, and legal proceedings were begun that might have resulted in retaliatory action if the situation had not been changed by negotiation of the Automotive Products Agreement.

We in UAW felt at the very beginning that the unilateral action taken by the Canadian Government was a mistake. We so stated as long ago as 1961 to the head of the Canadian Royal Commission.

We believe that both countries will benefit from this new agreement. If it is properly administered and properly implemented by the companies involved, the final result will be a more efficient use of resources, and U.S. plants serving the Canadian market will benefit from the faster growth of that market.

We believe the beneficial effect will also mean a faster growth in the total and ultimately combined market.

Once the Canadian automobile industry, for example, has achieved levels of efficiency comparable to our own, there will be absolutely no justification for the wide differential which now exists between Canadian and U.S. autoworkers' wages, and you can be sure that the Canadian workers will insist upon bringing their wages up to the U.S. level. As a matter of fact, in 1964 collective bargaining, we narrowed that wage gap in the car manufacturing companies in Canada by just short of 10 cents predicated upon the imminence of this agreement.

In doing so, they will obviously make Canada a better market for all United States as well as all Canadian products.

We believe that this agreement can be a great success. We share the hope of the administration that, when the agreement is reviewed by the United States and Canadian Government in 3 years' time, further steps can be taken toward the removal of all restrictions on free trade in the automotive industry.

We would even go further than that. We would hope that the agreement will prove so patently beneficial to both countries that the principles embodied in it will be extended to other industries, that it will become the first of many steps toward the general removal of trade barriers between the United States and Canada.

We think it is important that under this legislation it is emphatically clear, as it is under the Trade Expansion Act, that the worker assistance proposed is not employment insurance.

As this committee's report on the Trade Expansion Act stated:

This worker assistance is, therefore, in the nature of an adjustment to conditions brought about by removal of prior job protection and is not unemployment insurance.

It is rather in the nature of compensation for injury done the worker by duty-free imports.

The practical consequences to our union of making this distinction are important. The overwhelming majority of autoworkers are em-

ployed under the terms of UAW agreements which include provisions for supplemental unemployment benefit payments, SUB, which are in supplementation of State unemployment insurance.

In a great majority of cases, these SUB plans will supplement the worker's State system benefits to a level higher than that provided under this bill and the Trade Expansion Act.

Obviously if the full amount of adjustment assistance were considered to be an unemployment benefit, the higher level of such benefits as compared with regular State benefits would not change the total amount received by the laid-off worker but would serve only to reduce the amount of supplemental payment he received from the SUB trust fund.

In that event the purpose of this bill would be completely circumvented. It would be of no assistance whatever to workers laid off as a result of the operation of the agreement. The consequences in some cases could be extremely bizarre. Under many SUB plans, the overfunding of our SUB funds is now set aside in a special account for the purpose of a Christmas bonus to active workers. If assistance under this agreement were considered as unemployment insurance, SUB payments would be reduced, the special account would grow and Government funds would in effect be used for Christmas bonuses for employed workers while workers laid off by virtue of this legislation would be denied protection. Such a result would be contrary to the intent of Congress.

Now, by the same token, we recognize the Congress had not intended a situation where workers could receive more than they would have received had they continued actively at work, which would result if none of this assistance were to be considered in the calculation of the SUB benefit.

We recognize, as I have said, that this is not the intent of Congress, as is evident from the provision of the Trade Expansion Act that, if the worker has collected unemployment insurance, his assistance payment is to be reduced by an equal amount. We certainly would not interpret our SUB agreements in a manner that would permit such an inequity, nor would we support any worker who sought such an interpretation in an appeal to a joint union-management board.

The intent of Congress is not, we believe, to use Government funds for windfall Christmas bonuses to employed workers or excessive payments to dislocated workers. The intent is to compensate workers for the injury done them and to do so by provision of assistance which, to repeat again the words of this committee in 1962, is "in the nature of an adjustment to conditions brought about by removal of prior job protection."

I would like to say just a very few words about price reduction. We in this country have a substantial stake in seeing to it that savings under this agreement are passed on to consumers in the form of price reductions because only as we get price reductions, particularly in the Canadian sector of the market, can it have the beneficial effect to our two peoples that is contemplated.

Savings resulting from increased efficiency will, of course, be realized over a period of time, although we believe it need not be a lengthy period of time.

There is one substantial saving which the automobile manufacturing companies are enjoying already, the elimination of the tariff. This

is a significant saving. The amount of tariff which was paid in 1964 on imports of vehicles and parts from the United States is estimated at about \$50 million.

The car manufacturers are making sure that every cent of those savings accrues to them. We have been informed that Canadian parts manufacturers, providing parts for the Canadian auto companies, who have to import some of their components from the United States, have been told by those companies that they must reduce their prices by the amount of tariff they save on imported components.

Unfortunately, the companies are not passing on any of their tariff saving to automobile buyers. The prices of cars to Canadian buyers have not been cut by one cent, and the companies have made it clear that they have no intention of reducing prices now or in the near future.

Even in the case of cars imported by the companies from their U.S. plants, where the operation of the agreement has meant the immediate elimination of the 17½-percent tariff, there has been no cut in prices. It is reported that at least one company, Ford of Canada, is now exporting several hundred Canadian-made cars a month for sale in northern New York State at U.S. prices while continuing to charge Canadian buyers the much higher Canadian price for the same car built in the same plant. This action by Ford has given rise to charges of dumping.

From a number of sources it is reported that the automobile companies intend to keep for themselves the savings made possible under the agreement for a considerable time and to use the funds for investment in new plant and facilities.

We believe that price cuts are in order in Canada, applicable to all North American-produced cars. We agree it would be scarcely feasible for companies to cut prices on imported models, while maintaining prices on Canadian-made cars, though even the cost of producing these cars has been reduced by the elimination of the tariff on U.S.-made parts.

There is no reason, however, why the \$50 million saving flowing from elimination of tariffs should not be reflected in a flat percentage cut applying to all cars sold by U.S. subsidiaries in Canada, whether imported or domestically produced.

Our rough estimate is that this would permit a price cut of the order of 4 percent in the wholesale price, which could, of course, be followed by additional cuts as greater efficiency in the Canadian industry is reflected in lower costs. The final result should be a reduction in Canadian car prices of 17 to 18 percent, since the present price differential primarily reflects the 17½-percent tariff on finished cars imported from the United States.

As long as the car consumer in Canada cannot have the benefit of a free market and come to the United States and buy at U.S. prices, there is no economic pressure on the companies to pass their tariff savings on to Canadian consumers. And there will be no Common Market in the true sense of the word until there is genuinely free trade for the individual consumer as well as for the manufacturers.

We believe that action by the Canadian Government to force the companies to pass on the saving is perfectly feasible and would not involve any element of price control. The Government would only

have to reduce the tariff paid by consumers bringing in U.S.-made cars, to lower the price at which these cars are obtainable in Canada.

The Canadian companies would then be required by ordinary competitive forces to make comparable cuts on cars they either produce in Canada or import into Canada. In any event, despite this unfortunate present circumstance, we have no doubt the Canadian price will eventually be reduced. If we were not sure of that we would have little reason to support the agreement at all.

But there is no reason, we repeat, why the Canadian companies or their U.S. parents should be permitted to pocket an immediate \$50 million per year, plus substantially greater sums in the future, as the price of their support.

This is not simply a Canadian domestic concern. That is a matter of direct and immediate interest to the United States as well as to Canadian workers. Maintenance of artificially high prices on the Canadian market means the continuation of an artificial restriction on motor vehicle sales in Canada.

This in turn means there will be fewer auto industry jobs there than there could be and should be, not only in Canadian auto plants but in the U.S. plants which produce vehicle or parts for the Canadian market. This in turn will make more difficult the process of adjustment which this bill seeks to facilitate by restricting the number of alternative job opportunities for workers who are displaced or threatened with displacement. Here again we would urge that the administration make representations to the Canadian Government pointing out that maintenance of artificially high prices seems only to enrich a few U.S. corporations at the expense of Canadian consumers and Canadian and U.S. workers.

In this connection the recently published first quarter profit statements of the large U.S. automobile companies make it unlikely that they will plead inability to pass the tariff savings along to the consumers.

We would urge this committee to get the facts on profits of Canadian subsidiaries of American automotive companies out into the open. Of course, Congress has no jurisdiction over Canadian companies but it does have jurisdiction over their U.S. parents. We would urge the committee to call before it the heads of the major U.S. companies and question them as to the profits of their Canadian subsidiaries.

In conclusion, Mr. Chairman, I would like to say that there are obvious problems presented by this proposal as there are obviously human problems involved in any human scheme of rationalization.

We believe it is sound in principle and will provide substantial benefits for both the United States and Canada. It will permit a more efficient use of productive resources and corresponding reduction in costs. The sooner these savings are passed on to consumers, the sooner they will be reflected in rising sales and higher employment in the automobile industries of both countries. These in turn will make their contributions to greater economic health and rising standards of living.

We recognize that these changes cannot be made without requiring some adjustments in the industry, adjustments which will affect some of our members. We welcome the recognition given in this bill to the principle of special assistance for workers who may be adversely

affected by such adjustments. We have never taken the parochial view that private interests take precedence over the public interest. But we do insist that when the national interest requires that the private interest of some of the individuals be subordinated to the general good, then the Nation has a special obligation to protect those individuals from harm.

As I said in the beginning we would have liked to have seen the bill go further in that direction than it does but we welcome the principle, we support the bill, and we urge approval of this bill by the committee.

The CHAIRMAN. Mr. Woodcock, if you want to you may have permission to insert your entire statement.

Mr. WOODCOCK. I have done that.

The CHAIRMAN. I apologize for not being here at the beginning.

Mr. BYRNES. At the earlier part of your statement, Mr. Woodcock, you discussed the matter of adjustment assistance.

Mr. WOODCOCK. Yes, sir.

Mr. BYRNES. Particularly the inadequacy of the adjustment assistance under the Trade Expansion Act. Do you have the recommendations for amendment of the adjustment assistance provisions of the Trade Expansion Act?

Mr. WOODCOCK. I think we are expressing there our belief that it should have gone further but in the light of the circumstances we are supporting it because of the principle involved.

Mr. BYRNES. You misunderstood my question.

Mr. WOODCOCK. I am sorry.

Mr. BYRNES. I am talking now about the Trade Expansion Act and the adjustment provisions of that act. You called our attention to the inadequacies of the provisions in that act and what appears to be a practical impossibility of getting any assistance under the act as it is presently written.

I ask, therefore, whether you have recommendations for amendment of that act.

Mr. WOODCOCK. As far as its amendment, sir, as you have indicated, the complete lack of performance has led to our strong insistence that there be a different mechanism in this bill. As far as the benefits provided, we believe that when an individual is harmed by something that is done for the national good that his compensation should be approximately equivalent to that which he has foregone.

Mr. BYRNES. As I understand it you are justifying your support of the bill currently before us because of the adjustment assistance provisions. The adjustment assistance provisions in this bill are different from the adjustment assistance provisions in Trade Expansion Act. What I am asking is why should we not while we have this matter before us correct the adjustment assistance provisions of the Trade Expansion Act?

Mr. WOODCOCK. I would like to say two things, sir, if I may. Number one, it is not simply because of the inadequacy of the administration and the benefit level of the Trade Expansion Act that we insist upon a separate mechanism. It is also because of the different problems. As I tried to indicate in my remarks, the fact that the exports may diminish, very probably will, as a result of this agreement cannot fall within the scope of the Trade Expansion Act, no matter how well modeled.

Mr. BYRNES. What disturbs me is the inadequacy of relief under the adjustment assistance provisions of Trade Expansion Act. Now we are asked to provide a special assistance program for the automobile industry. We have other industries that have problems, and there will be more that will have more severe problems after the Kennedy round of negotiation.

Now why should we pick out the automobile industry and tailor a special provision for them and leave on the books an inadequate provision of adjustment assistance as far as all the rest of the industries in this country that may be affected adversely?

Mr. WOODCOCK. I don't think, sir, that this is a provision to give special and discriminatory treatment to the automobile industry. This is a proposal which is unique in the sense of proposing an agreement which will integrate a Common Market which has not been before us.

Mr. BYRNES. I realize this. This is a special trade agreement for the industry but the impact has an adverse effect on American producers and workers. Now the same thing happens in the Trade Expansion Act as the result of a general trade agreement. There can be adverse effects as far as the American producer and worker is concerned. The cause of their plight is a trade agreement. While it is true there is a special situation here, you are just as bad off if you are out of work and laid off because of the general trade agreement resulting from the Kennedy round as an automobile trade agreement act with Canada.

Mr. WOODCOCK. I don't disagree with the consequences to the individual. We believe two things. If any other industry is faced with a similar proposal comparable to his present unique proposal it should be treated, in our opinion, in like fashion.

Secondly, if this committee would propose hearings going to the amendment of the Trade Expansion Act, we would be delighted to come down and testify in support of the amendments which we think are necessary in that act.

Mr. BYRNES. Now we come back to the first question I asked you. What recommendations do you have for amending that act? Do you have any recommendations?

Mr. WOODCOCK. No, sir, not in this context and I am not being evasive, at least. I hope I am not being evasive, but I don't want to confuse our position. I cannot come before this committee on behalf of our union without emphasizing the point of view that the benefits and the administration under the Trade Expansion Act are inadequate. At the same time we have made a considered conclusion to support the benefit levels embodied in this bill because we welcome and support the principle that is set forth.

Mr. BYRNES. I recognize that my question is not confined just to the Canadian agreement we are talking about here, but I want to take advantage of your judgment with respect to the Trade Expansion Act which you did treat with in your prepared statement and in your oral summary.

For instance, I find at page 11 of your statement at the bottom of the page where you say simply that the administration of the Trade Expansion Act has been such a total failure as far as adjustment assistance is concerned that if autoworkers of small firms had to rely on the

Trade Expansion Act for protection they in fact would have no protection at all.

Now I assume that you would reach the same conclusion as far as other workers in any other industry that might be affected by changes in duties relating from the Trade Expansion Act because you are talking there about the mechanism of the Trade Expansion Act and its inadequacies and its total failure in your judgment.

What I am asking is whether your organization has any recommendations for amending the Trade Expansion Act in order to avoid this result of total failure.

Mr. WOODCOCK. Not at this moment, sir. As an officer of our union I am well aware of the inadequacies of the Trade Expansion Act. Yet I must confess an appalling ignorance with respect to the intricacies of the Tariff Commission's administration.

Mr. BYRNES. Yet you do come to a pretty fair conclusion that the Trade Expansion Act is a total failure on the adjustment assistance.

Mr. WOODCOCK. Based on the nonperformance.

Mr. BYRNES. I agree with you. That is a prima facie case that it has been a failure.

Mr. WOODCOCK. Our chief reason for supporting this bill is the unique character of the worker assistance provisions of this legislation and its importance to this industry.

Mr. BYRNES. Well, I guess that is as far as I can get.

The CHAIRMAN. Any further questions?

Mr. Utt.

Mr. UTT. You made no comment that I can find with reference to paragraph 2 of section 201 in which we gave advanced approval to any other agreement that the President might make with any other country on the same subject. Now do you think that that is proper? Are you here ready to say that you would approve such an agreement with Japan where a wage scale is 10 percent of American wage scale?

Under this bill he can do that and you cannot come and make a protest before this committee if we give that advance approval.

Mr. WOODCOCK. We would believe, sir, that in the light of the history of the discretionary power of the President since 1934 and as I understand it the President would have to come to the Congress for adjustment assistance legislation and this would then put it into the public arena.

In view of these facts we have no particular misgivings in this direction.

Mr. UTT. You don't think that this is an advance approval of any agreement that you might make?

Mr. WOODCOCK. I think it is an advance approval of the possibility of the agreement but its implementation just as the implementation of this agreement would have to come back to the Congress.

The CHAIRMAN. Mr. Schneebeli.

Mr. SCHNEEBELI. Mr. Woodcock, I believe your union represents about 100 percent of all the production workers in the auto industry in the United States?

Mr. WOODCOCK. Very close to that figure, sir.

Mr. SCHNEEBELI. Is this true also in Canada, about the same proportion?

Mr. WOODCOCK. Roughly, yes, sir.

Mr. SCHNEEBELI. So you represent the same preponderance of the workers in both countries?

Mr. WOODCOCK. Yes, we do.

Mr. SCHNEEBELI. Only one other question. In the light of your experience that you have had with the Trade Expansion Act, I imagine if this bill came up again for approval your union would be opposed to it, is that correct?

Mr. WOODCOCK. As a result of the experience that we believe can be shown on the record we would want amendments to it, sir.

Mr. SCHNEEBELI. We have had over 2 years' experience with it, and 18 cases appealed. I just wanted a positive statement that your union probably would be opposed to any extension being made in the Trade Expansion Act, particularly regarding adjustment assistance.

Mr. WOODCOCK. Until there were assurances of better implementation of what we understood would come about. We still support, the labor movement supports generally the liberalization of trade moving toward widened free trade markets as being beneficial to all peoples.

Mr. SCHNEEBELI. Thank you, sir.

The CHAIRMAN. Any further questions?

Mr. WOODCOCK. I want to associate myself with the statement you made that Mr. Byrnes referred to and to commend you for the position that you take over on page 12, that if no assistance had been offered with that available under the Trade Expansion Act we would have had no alternative but to oppose the agreement.

And to express the concern that I have and have had over the manner in which the adjustment assistance provisions of the Trade Expansion Act have been administered. Frankly these provisions did not need to be reconsidered by the committee and particularly in the light of developments referred to certainly have been a complete failure up to this point.

I appreciate the fact that you and others have found a way that you think would bring some degree of assistance to firms and individuals affected adversely by this program and that you have seen fit for it to be included within this legislation.

I have known of some individual cases actually under the assistance program of the Trade Expansion Act that I had something to do with suggesting that they be brought to the Tariff Commission and I was greatly surprised at some of the decisions that came from the Tariff Commission.

There is a concern, however, on the part of others about this proposal that the Tariff Commission is being left out, left out of it. Is that in your opinion a weakness of the present assistance program, the attitude taken?

Mr. WOODCOCK. The record inevitably leads us to that conclusion, sir, yes.

The CHAIRMAN. Maybe I am unjustly critical but I wondered if I was by myself in my feeling about the matter?

Mr. WOODCOCK. No, sir; we would support your opinion.

The CHAIRMAN. Any further questions of Mr. Woodcock?

Thank you.

Mr. WOODCOCK. Thank you very much.

The CHAIRMAN. We appreciate your coming.

Mr. KINTNER.

Mr. Kintner, will you please identify yourself for the record?

STATEMENT OF EARL W. KINTNER, GENERAL COUNSEL, MOTOR & EQUIPMENT MANUFACTURERS ASSOCIATION

Mr. KINTNER. Mr. Chairman, and members of the committee, my name is Earl W. Kintner. I am a lawyer in Washington, 1000 Federal Building, Washington. I was formerly in Government. I was for several years the General Counsel and subsequently the Chairman of the Federal Trade Commission in the Eisenhower administration.

I am appearing before you today as the general counsel for the Motor & Equipment Manufacturers Association, which has its headquarters in New York City. This association is composed of about 500 manufacturers of automotive parts, equipment, accessories, tools and chemicals with plants located throughout the United States.

I would also like to identify two people with me, Mr. Mark R. Joelson on my right, an attorney, and Mr. Angelos Clones, an economist, who works for our law firm, on my left.

The automotive products are marketed at home and abroad for original equipment, replacements, and service. The association was organized in 1904 and is therefore generally considered the automotive industry's oldest trade association.

The Motor & Equipment Manufacturers Association has kept its membership advised with respect to both the agreement concerning automotive products between the United States and Canada, and the proposed implementing legislation which is under the consideration of this distinguished committee.

It has become apparent to the association, after careful study and a survey of the views of its members, that the economic consequences of the United States-Canada agreement will vary greatly in both nature and degree from firm to firm within our association. The association cannot, therefore in good conscience, take a position with respect to the agreement itself or those aspects of the proposed legislation which are directed to implementing the agreement. The association has, however, authorized me to appear today to comment on the more sweeping aspects of the proposed legislation which profoundly disturb us.

We are deeply concerned about the provisions of section 202 of H.R. 6960, headed "Implementation of Other Agreements," which would grant the Executive unprecedented and unlimited powers to eliminate tariffs on automotive products by executive agreement with any country in the world.

Moreover, the legislation would apparently allow such elimination to take place at any time in the future, and on any automotive product, without the right of a public hearing for the American industries and firms to be affected.

The Motor & Equipment Manufacturers Association takes the position that the granting of such sweeping powers to the Executive for an indefinite period of time is unwarranted and an unjustified depar-

ture from our long established principles and procedures in the field of tariffs.

As we understand it, proposed section 202(a) would provide the Executive with the power to agree with the government of any country for the mutual elimination of the duties applicable to motor vehicles and parts for original equipment. Section 202(b), following, would provide the President with authority to eliminate or reduce the U.S. tariffs on motor vehicle parts used for replacement, service, and maintenance, with any country, providing only that an agreement has been signed beforehand under section 202(a).

These provisions would, in effect, transfer from the Congress to the Executive full and unrestricted power to eliminate tariffs on scores of products of crucial significance to our Nation's economy. In addition, nowhere in the proposed legislation is there a prescribed procedure for hearings or provision for other means by which those who would be adversely affected will be given the opportunity to present their case against elimination or reduction of tariffs.

The Tariff Commission, the agency which traditionally has been responsible for advising the Congress and the President on the probable effects of tariff reductions on the U.S. economy, is clearly bypassed in the proposed legislation. The agency's findings are not required before the conclusion of an agreement that may have a serious impact on the well-being of the U.S. automotive parts industry. The Trade Expansion Act of 1962, which is the current general authority for trade agreements, gives the President authority to reduce the U.S. tariffs on most products by 50 percent following public hearings by the Tariff Commission and the Trade Information Committee. By contrast, section 202 of the proposed legislation would allow the Executive to totally eliminate the import duties on automotive products with no right on the part of the interested U.S. firms to be heard. It seems to us somewhat inconsistent that a 50 percent authority to reduce tariffs provides specifically for a forum where the parties concerned can present their views and interest for consideration, while authority for complete elimination of import duties makes no provision in this regard at all.

The open-ended nature of this legislation is also amply demonstrated in section 303 which refers to "adjustment assistance" with respect to prospective executive agreements as requiring additional legislation *en futuro*, but leaves the nature of the legislation to depend on the circumstances at the time.

So far as automotive products are concerned, the proposed legislation is evidently the ultimate grant of tariff-cutting power to the Executive. We know of no justification for this discriminatory treatment of our industries and their products.

The administration has indicated its belief that sufficient protection from the point of view of replacement producers is provided by the fact that, under this bill, an agreement as to replacement parts can only take place as an adjunct to an agreement on motor vehicles and original equipment parts. But, in reality, this simply means that the two agreements can be made simultaneously, provided that the agreement on original equipment is signed before, perhaps seconds before, the agreement on replacement parts. It has also been stated, in this connection, that any agreements in the near future with countries other

than Canada are unlikely, because other countries have displayed little willingness to give up their own trade barriers on automotive products. These assumptions are not, in our view, dependable, because conditions and attitudes in the trade field have been known to change rapidly.

Moreover, even if we had grounds to believe that the administration's assumptions are correct, we would see no reason whatsoever why the Executive should be granted a broad authority which it purportedly does not expect to use in the near future.

We believe that, if the President were to be granted the proposed authority and then proceeded to eliminate the U.S. tariffs on automotive parts with some of the industrial countries, U.S. producers would inevitably be injured. Two factors will determine, in each case, the impact and the degree of injury to be inflicted on U.S. parts manufacturers from an elimination of tariffs; first, the extent to which the present tariff rate in fact affords protection from foreign competition; and second, the capacity of the foreign country with which the agreement is made to produce parts economically and in quantities sufficient to compete for the U.S. market.

It is, of course, not possible for the Motor & Equipment Manufacturers Association to determine and present to you, at this stage, on which of the hundreds of items of automotive parts, and with respect to which foreign countries, an elimination of the U.S. import duty would inflict serious injury on American producers. The broad nature of the problem, and the correspondingly wide scope of the legislation, are amply indicated by the fact that there are hundreds of components and accessories for which in total, more than a hundred varying rates, some very significant, are provided in the U.S. Tariff Schedules.

Imports of automotive parts in the United States in the past have not been relatively substantial. In 1963, the total value of imports to the United States for automotive parts was approximately \$83 million. Our domestic industry is today, on the whole, healthy and efficient.

All of this certainly does not mean, however, that in the absence of tariffs, manufacturers located in foreign countries will not decide to tool up to produce automotive parts destined for the U.S. market exclusively. This eventuality is indeed probable if tariffs are eliminated between the United States and any of those nations which have lower labor costs and other important production costs advantages.

We, therefore, earnestly urge you, Mr. Chairman, and this honorable committee, to give the matters which we have raised the most careful consideration.

That, sir, concludes my formal statement.

The CHAIRMAN. Thank you, Mr. Kintner. Are there any questions?

Mr. Battin?

Mr. BATTIN. Mr. Kintner, in your opinion what do you think the situation would be if the Canadian Government entered into another agreement with another country to supply parts in the Canadian market? How would that affect your suppliers or the people you represent?

Mr. KINTNER. Our problem, Mr. Congressman, is that, as I stated formally, this agreement and this legislation will affect various mem-

bers of our association in a different way. I cannot, therefore, comment on this particular question. I am here with a very limited brief to carry but one which I and the association felt would be helpful to the committee. There is we think a serious problem here and we wanted to call this to the committee's attention even though our members would be affected in drastically varying ways by this proposed legislation should it come into being.

The CHAIRMAN. Any further questions?

Mr. BURKE. Mr. Chairman, I ask you for unanimous consent to have a letter I received from a firm in my district included in the record after interrogation of this gentleman.

The CHAIRMAN. Without objection it will be included in the record. (The document referred to follows:)

MOTIVE PARTS CO., INC.,
Hyde Park, Mass., April 27, 1965.

HON. JAMES BURKE,
House of Representatives,
Washington, D.C.

DEAR CONGRESSMAN BURKE: I am sure someone in Washington is interested in preserving small business. Yet, from what I have learned about the recent United States-Canadian Trade Agreement on the automotive trade, it sure isn't the State Department.

If Congress approves legislation to put that agreement into operation, two things will result. First, you will be handing a cartel to Ford, Chrysler, and General Motors to help them drive independent businessmen like myself to the wall. If we didn't have independent automotive parts manufacturers in this country, the big three would have taken over everything including the entire replacement market. When that happens, small business will really be on the rocks. Why would the State Department draft an agreement which benefits only the "bigs"?

The second consequence is the loss of 60,000 jobs. I know the Government is planning some kind of a relief program when the Big Three start to buy more parts in Canada, but we both know this country was built on jobs, not relief roles.

Because this agreement must be backed up by tariff legislation, the Ways and Means Committee will be asked to act on it. While the whole business has been labeled "free trade" you will find out it's special interest legislation and should be rejected.

I do hope you will let me know your views when you get a copy of the draft legislation. I have been told that the vehicle manufacturers got a copy of the draft legislation from the Department of Commerce but copies are not available for others.

Probably the State Department and the vehicle manufacturers are going to try to get this past your committee so fast that no member will really have the time to study it. There is also a lot of talk in the trade about secret agreements between the vehicle manufacturers and Canada. I know you will want to dig deep into that aspect of it.

Sincerely yours,

LOUIS BLUMENTHAL, *President.*

The CHAIRMAN. We thank you, Mr. Kintner, for coming.

Mr. KINTNER. Thank you, sir, and members of the committee.

The CHAIRMAN. Mr. Halfpenny.

Will you please identify yourself for the record by giving us your name and address and the capacity in which you appear?

STATEMENT OF HAROLD T. HALFPENNY, COUNSEL, INDUSTRY-WIDE AUTOMOTIVE TARIFF STUDY COMMITTEE

Mr. HALFPENNY. My name is Harold T. Halfpenny. I am an attorney at law with offices at 111 West Washington Street, Chicago. I am appearing on behalf of the Industrywide Automotive Tariff Study

Committee, a voluntary group of U.S. independent auto parts manufacturers who supply both parts for original equipment and in the replacement market. This committee of manufacturers was formed as a result of the Canadian tariff plan which is being considered here.

It has been my privilege over the years to appear before this important committee on behalf of the independent automotive parts industry and we have always been impressed with the committee's fairness and understanding.

The problem you are now concerned with in our opinion threatens the very existence of hundreds of small automotive parts manufacturers located throughout the country. Because of the fierce competition in this industry and the great concentration of power in the hands of their customers and competitors, the major vehicle manufacturers, and the very real possibility of economic reprisals, these small manufacturers are dependent upon others to tell you their fears. They rely upon your fair consideration and sound judgment in this entire matter.

I apologize for the length of my presentation and I will not read it. I would like to summarize it if I could have the full text incorporated in the record.

The CHAIRMAN. Without objection, it will be included.

(The full statement is as follows:)

STATEMENT OF HAROLD T. HALFPENNY, COUNSEL, INDUSTRYWIDE AUTOMOTIVE
TARIFF STUDY COMMITTEE

My name is Harold T. Halfpenny, I am an attorney at law with offices at 111 West Washington Street, Chicago. I am appearing on behalf of the Industrywide Automotive Tariff Study Committee, a voluntary group of U.S. independent auto parts manufacturers who supply parts both for original equipment and in the replacement market. This committee of manufacturers was formed as a result of the Canadian tariff plan which is being considered here.

It has been my privilege over the years to appear before this important committee on behalf of the independent automotive parts industry and we have always been impressed with the committee's fairness and understanding. The problem you are now concerned with in our opinion threatens the very existence of hundreds of small automotive parts manufacturers located throughout the country. Because of fierce competition in this industry and the great concentration of power in the hands of their customers and competitors, the major vehicle manufacturers, and the very real possibility of economic reprisals, these small manufacturers are dependent upon others to tell you their fears. They rely upon your fair consideration and sound judgment in this entire matter.

INTRODUCTION

ATMOSPHERE OF TRADE AGREEMENT NEGOTIATIONS

CANADIAN DEMAND FOR INCREASED EXPORTS

The trade agreement which this bill implements, though it is a bilateral agreement in its present form, is the culmination of years of unilateral effort on the part of Canada to increase its automotive exports. It was adopted in response to Canada's constant pressure in that direction, and is incomprehensible unless it is analyzed in that light.

In considering the various Canadian plans, it is necessary to bear in mind several basic propositions of which we are all aware, but which tend to be overlooked in the press reports:

First, when the phrase "Canadian automotive manufacturers" occurs in the any discussion, it must be remembered that the manufacturers so described are (with only minor exceptions) subsidiaries of the U.S. motor vehicle manufacturers: General Motors, Ford, Chrysler, American Motors, International Har-

vester, Kaiser, Jeep, and others. The bulk of Canadian automotive output in 1963 was accounted for by U.S. subsidiaries.

Second, U.S. vehicle manufacturers are to some extent customers of independent parts manufacturers for original equipment parts.

Third, U.S. vehicle manufacturers are, particularly in recent years, extremely active in the replacement market, and are accordingly growing competitors of the independent parts manufacturers. This growing competition is demonstrated by Ford's acquisition of Autolite, and its Fo Mo Co line; General Motor's United Motor Service Division, and its AC Division; and Chrysler's Mo Par Parts Division. These vehicle manufacturers are now only offering parts for their own makes of vehicles, but a full line of parts for all other makes of cars. All of these products, of course, are distributed in direct competition with the independent manufacturers and suppliers in the replacement market.

BASIC GOAL OF THE BLADEN PLAN—DUTIES REMISSION

In August 1960, Prof. Vincent Wheeler Bladen was appointed a Canadian Royal Commissioner to study the possibility of making the products of the Canadian motor vehicle parts industry more competitive in the export markets.¹ He originated the basic concept which has been followed ever since—subsidization of exports in the form of forgiveness of duty on imports for the vehicle manufacturers.

EXPORT INCENTIVES

This policy was put into practice in a limited way in 1962 by Order-in-Council P. C. 1962-1/1536, which allowed automotive companies to bring engines, engine blocks, and automatic transmissions into the country and earn a remission of duty on them to the extent that the value of the imports was counterbalanced by exports of Canadian-made automotive parts to the United States. This plan was designed to increase the manufacture of car parts in Canada, and worked extremely well.²

This was carried further in 1963 by Order-in-Council P. C. 1963-1/1544 (called the duty-remission plan, or the Drury mark 1 plan), under which duty could be forgiven (as counterbalanced by exports) on a wide range of motor vehicle parts imported as original equipment as well as motor vehicles.

According to Canadian Minister of Industry Drury in a speech to the annual meeting of the Automotive Parts Manufacturers Association in October 1963, "The purpose of the plan is to substantially expand the size of markets available to Canadian vehicles and automotive parts, particularly the latter."

On March 26, 1964, the Wall Street Journal reported that "The Canadian Government seems to be succeeding in its attempts to get American carmakers to expand production of auto parts in Canada—at the expense of the United States." In fact, the effect was so noticeable that a substantial body of opinion in this country believed that the Drury mark 1 plan was in law a grant or bounty on exports.

COUNTERVAILING DUTIES ACTION

Title 19, United States Code, section 1303, requires the imposition of a countervailing duty whenever any country shall pay, directly or indirectly, any bounty or grant upon the manufacture, production, or export of any article manufactured in that country. In accordance with that law, several petitions were filed with the Secretary of the Treasury, asking that such a duty be imposed.³ Although the second of those petitions was filed in July 1964 no action had been taken by the Department in January of 1965. At that time, the present plan was adopted.

Briefly, the present plan is that Canada will allow vehicles and parts for original equipment to be imported free of duty when they are imported by a vehicle manufacturer, provided he meets certain conditions.⁴ I wish to stress, therefore, that the tariff elimination on the Canadian is conditional. To import new cars and parts for new cars, the vehicle manufacturers must (for the current year for which he is claiming duty-free status) maintain or increase his Canadian production as compared to the "base year," August 1963-64, and must maintain or increase the "Canadian added value" of the vehicle. On the other hand, the United

¹ Toronto Globe & Mail, Nov. 3, 1964.

² House of Commons Debate, vol. 109, No. 246, Official Reports of Mar. 31, 1965.

³ One petition was filed by the Modine Manufacturing Co. of Racine, Wis.: the other on behalf of Automotive Service Industry Association was filed by me as counsel.

⁴ It has been estimated that the vehicle manufacturers will earn \$50 million a year in duty remissions.

States will allow the duty-free importation of motor vehicles and of parts for original equipment, with no safeguards with respect to American content or production requirements.

This plan is presented to Congress in the form of a tariff bill. Actually, as shown below, it is much more than that and requires the careful analysis accorded to bills of major importance.

(1) This bill requires the careful scrutiny of Congress because it is a departure from our traditional tariff policy in: (a) its objectives; (b) its substance; and (c) the procedure by which it came into being.

(A) *Objectives of the plan*

This country's early tariff policy was based on the theory that import duties would be used to enable American industry to meet competition from foreign businesses which enjoyed lower production costs. Under this philosophy, import duties were used to equalize the differences between costs of producing here and abroad.⁵

This basically protective attitude changed in 1930, when the President was given power to adjust tariff (up to 50 percent of established levels) "for the purpose of expanding foreign markets for the products of the United States * * * so that foreign markets will be made available to those branches of American production which require and are capable of developing such outlets * * *." The President was authorized to make adjustments when he found as a fact that restrictions were "unduly burdening and restricting the foreign trade of the United States." The same section gave the President authority to enter into trade agreements with other countries, though that authority under that particular section expired June 30, 1962.⁷

The Trade Expansion Act of 1962 provided that (after June 30, 1962, and before July 1, 1967) the President may increase or decrease duties within set limits and enter into trade agreements to that effect whenever he "determines that any existing duties or import restrictions of any foreign country or the United States are unduly burdening and restricting the foreign trade of the United States," and the general purposes of the act are served.⁸ Those general purposes are to "stimulate the economic growth of the United States and maintain and enlarge foreign markets for the products of" the United States, and to "strengthen economic relations with foreign countries through the development of open and nondiscriminatory trading in the free world."⁹

Although the President was not acting under the authority of the Trade Expansion Act in this instance, it is surely relevant in that it expresses the will of Congress as to the circumstances under which tariff adjustments should be made.¹⁰ There is no indication that those circumstances are here present.

In fact, the cornerstone requirement appears to be missing; there has been no official comment to the effect that the foreign trade of the United States is "burdened" or "restricted," or that the products of the United States will find an "enlarged foreign market."¹¹ The proposed bill does not purport to deal with either of these assumptions. Rather, so far as can be gleaned from the official pronouncement on the subject, its sole objectives are twofold. As the President put it in his transmittal letter to Congress: (1) "Canada will have achieved her objective of increasing her automotive production: (2) U.S. manufacturers will be able to plan their production to make most efficient use of their plants, whether in Canada or the United States."

These purposes have no relation to our established tariff policy, which under the law is aimed at enlarging the foreign markets of U.S. manufacturers and developing nondiscriminatory trading in the free world. Beginning with the second point, this pact is restrictive and discriminatory in that it is restricted to Canada, excluding the rest of the free world. Complaints have been widespread that it violates the basic principles of the General Agreement on Tariffs and Trade (GATT).

As for enlarging the foreign trade of U.S. manufacturers, the plan is mis-designed to meet that objective, and the results thus far appear to be frightening. According to newspaper reports the results so far has been to increase the volume of Canadian goods coming into this country.

⁵ *Hampton v. United States*, 276 U.S. 394, 411 (1928).

⁶ 19 U.S.C.A. 1351.

⁷ 19 U.S.C.A. 1352, note.

⁸ 19 U.S.C.A. 1821.

⁹ 19 U.S.C. 1801.

¹⁰ And could not do so, because of the 50-percent limitation mentioned above.

¹¹ In fact, the President's message contemplates that dislocation in the industry will result from a "decrease in exports."

Chrysler Canada, Ltd., according to the Wall Street Journal of March 31, "plans to export 80,000 vehicles to the United States in 1966." The same newspaper on April 6 reported that the Ford Motor Co. is now importing 400 cars a month from its Oakville, Ontario, plant into Upstate New York. The same article comments:

"The auto companies aren't eager to publicize their plans to sell Canadian-built cars in the United States. The tariff agreement itself hasn't been ratified by the U.S. Congress and the news of work moving into Canada might cause trouble in Congress."

With such results already known, it is obvious that this is not an ordinary tariff bill, and should not be examined in that light. If these results are to become part of our national policy, they should be adopted only after the most thorough consideration and full and open debate.

(B) Substance of the plan

The plan is unusual as a tariff measure from several points of view which can be briefly summarized:

(1) Tariffs will be cut "to zero, all at one time," as the President put it. This is more drastic than the original negotiations contemplated which were apparently aimed at a gradual reduction over a 4- or 5-year period.¹²

(2) The "end use" test is adopted; that is, the parts which may be admitted free of duty are those which are intended for use as original equipment. The "end use" test is not only discredited in general, but in this instance is difficult to police and the results may be harmful to competition.^{13 14}

(C) Procedure by which the plan came into being

The plan presented here runs counter to the expressed will of Congress in the Trade Expansion Act of 1962 in that its announcement was not preceded by any of the public hearings contemplated by that act, nor were any of the guidelines for decision specified by that act followed, although the adjustments under that act would be only up to 50 percent—not complete elimination as here.

The Trade Expansion Act requires in connection with any proposed trade agreement, that the President shall advise the Tariff Commission of the proposal, and it shall report to him on the "probable economic effect" of the modifications of duties.¹⁵ In preparing its advice to the President, the Commission is directed by Congress to take the following steps:

"Investigate conditions, causes, and effects relating to competition between the foreign industries producing the articles in question and the domestic industries producing the like or directly competitive articles;

"Analyze the production, trade, and consumption of each like or directly competitive article, taking into consideration employment, profit levels, and use of productive facilities with respect to the domestic industries concerned, and such other economic factors in such industries as it considers relevant, including prices, wages, sales, inventories, patterns of demand, capital investment, obsolescence of equipment, and diversification of production;

"Describe the probable nature and extent of any significant change in employment, profit levels, use of productive facilities and such other conditions as it deems relevant in the domestic industries concerned which it believes such modifications would cause; and

"Make special studies (including studies of real wages paid in foreign supplying countries), whenever deemed to be warranted, of particular proposed modifications affecting U.S. industry, agriculture, and labor, utilizing to the fullest extent practicable the facilities of the U.S. attachés abroad and other appropriate personnel of the United States."

Further, the President is directed to designate an agency to hold public hearings in connection with a proposed trade agreement at which, after "reasonable notice," interested persons may present their views.¹⁶

These are reasonable steps, and are required in the case of an adjustment of less than 50 percent. It is suggested that since the prescribed routine has not been followed, the responsible congressional committees should use these requirements as guides and make as detailed an examination here as would be required

¹² Financial Times of Canada, Oct. 5, 1964.

¹³ Congress recodified the tariff schedules in 1962 to eliminate "end use" designations.

¹⁴ A press release from the office of Senator Hartke on Jan. 13 indicated doubt as to whether parts entering for original equipment will not be "diverted into the replacement market."

¹⁵ 19 U.S.C. 1841.

¹⁶ 19 U.S.C.A. 1843.

in the case of a less drastic alteration of our tariff structure, or request that the U.S. Tariff Commission make such a study.

(2) This bill is contrary to the spirit of the antitrust laws in that—

- (a) It tends to create a monopoly;
- (b) It requires the intimate cooperation of the major vehicle manufacturers with one another; and
- (c) It is aimed at achieving a planned economy rather than one governed by competition.

(a) The monopoly aspects of the plan

The Sherman Act,¹⁷ the oldest and probably the most respected of our antitrust laws, expresses the deep distrust of monopolies which is a cornerstone of our economic philosophy. Mr. William H. Orrick, Jr., head of the Justice Department's Antitrust Division, summarized this feeling in recent testimony before the Senate Antitrust and Monopoly Subcommittee: "Congress dedication to anti-trust goals has always rested on its recognition that concentration of industrial power may lead to the police state."¹⁸

The estimated \$50 million a year which the major vehicle manufacturers will earn in tariff remissions from Canada will surely contribute to the "concentration of industrial power" to which Mr. Orrick refers. And this is particularly true when one considers the stature of the recipients of that grant. According to the March 24, 1965, "Investor's Reader" published by Merrill Lynch, Pierce, Fenner & Smith, the major American vehicle manufacturers are included in the 66 companies with sales of over \$1 billion a year. American Motors barely made it in 1964 with sales of just over a billion; International Harvester was 23d with 2 billion-plus; Chrysler, 9th with over 4 billion; Ford was fourth on the list with over 9 billion, and General Motors led the parade with sales of almost 17 billion.

On Canada's side of the pact (to which our Government was a party) a direct monopoly is granted to the companies presently in the business of manufacturing motor vehicles. This grant is made by way of the definition of a "manufacturer" which can qualify for duty-free imports as one who produced vehicles in Canada in the period of 12 months ending on the 31st day of July of the year in which the importation is made.

The significant fact about this monopoly grant, in which Congress is now invited to acquiesce, is that the recipients are subsidiaries of U.S. corporations. As the "background material" furnished by the Government to this committee explained, "Production in Canada is almost wholly in the hands of subsidiaries of the U.S. motor vehicle manufacturers: General Motors, Ford, Chrysler, American Motors, Studebaker, International Harvester, Kaiser, Jeep, and others."

(b) Cooperation between vehicle manufacturers

The October 5, 1964, Financial Times of Canada commented while the plan was in its formative stages: "The possible barrier of U.S. antitrust laws has been considered, but officials consider it would not affect the kind of common action required by the auto companies to implement the plan."

Since, as will be mentioned later, we do not know what "kind of common action" will be required of the vehicle manufacturers, detailed comment is impossible. However, the Sherman Act prohibits agreements in restraint of trade, and common action on the part of competitors is often illegal for that reason. And even if it is not (strictly speaking) illegal, certainly it is contrary to the will of Congress and the spirit of the antitrust laws.

The questions which Congress must consider are: Will this act and the trade agreement which it implements put the seal of approval on conduct which would otherwise be prohibited by the Sherman Act? Will it change the theory and basic premises of our antitrust laws?

(c) The planned economy

According to the President's transmittal letter, the ultimate objective of this plan is "full integration of the North American automobile industry," though it is recognized that it "cannot be brought about all at once." Thus the "background information" explains that costs are higher in Canada because of short production runs. United States and Canadian duties "have helped to shape a pattern of trade and production that falls far short of the efficient pattern that could otherwise be developed. With tariffs and other restrictive devices elimi-

¹⁷ 15 U.S.C. 1.

¹⁸ As reported in the New York Times of Apr. 22, 1965.

nated, an American motor company having a Canadian subsidiary will be able gradually to concentrate in Canada on a limited number of models—and on those component parts which could be most efficiently produced in Canada—while supplying the Canadian customer with a full range of other models from American plants. The result, overtime, will be to create a rationalized and integrated North American industry.”¹⁹

Mr. G. Griffith Johnson, Assistant Secretary of State for Economic Affairs, testified before a Senate committee:²⁰

“As this plan goes into effect, the Canadian automobile companies are going to have to develop a much more efficient production operation. And to make it more efficient, it means they are going to have to specialize on certain limited models, on certain parts which can then be sold on both sides of the border.”

“The success of this agreement depends upon certain investment decisions being taken by the automobile companies, both parts and the major companies, on both sides of the border.”

The necessity for, and inevitability of, a “rationalized” or “planned” industry is not apparent from the bill which Congress is being asked to adopt, but is inherent in the trade agreement, which includes the Canadian part of the pact. In turn, half of that agreement is visible, and half invisible.

The visible portion is included in the trade agreement (annex A, par. 5, committee report pp. 3-4) and in the implementing Canadian Order-in-Council, and provides that to qualify as a “manufacturer” who may import duty free a producer must in each 12-month period subsequent to the base year, maintain the “Canadian value added” of the vehicles it produces in Canada at a level equal to, or greater than, its “Canadian value added” for the base year.

ROLE OF VEHICLE MANUFACTURERS

The invisible—and most important—part of the proposed plan is the private agreement between the major vehicle manufacturers and the Canadian Government that the manufacturers will increase beyond normal expected growth the Canadian value added by \$260 million within the next 3 years. Mr. Ron W. Todgham, president of Chrysler Canada, Ltd., announced in a press release issued by his office dated January 26, 1965, that “each manufacturer’s undertaking in this regard is confidential, known to himself and the Government. But when you add them all together, they come to a total of \$260 million for the automotive industry in Canada.” He added that the Canadian motor vehicle manufacturers—collectively—have 3 years to boost their Canadian production by this amount, but once at this level, must maintain it on a yearly basis.²¹

This \$260 million in parts business to be given by private agreement to Canada is the key feature of the plan. This, plus the “Canadian value added” requirement, serves to limit the sales of parts by U.S. parts manufacturers to Canadian vehicle manufacturers—and to make meaningless or at least unimportant the fact that those parts can be imported duty free.

Charles M. Drury, Minister of Industry, answered questions in the House of Commons on this point on March 31, 1965. As it appears in the official report of the proceedings, he explained it this way:

“As far as Canadian content is concerned, I think there is some misconception about the significance of the previous references to percentage of Canadian content and the absolute. Let me put it another way. In the arrangements which antedated the provision for stripped engine transmission plants, motor manufacturers in Canada could import into this country free of duty a number of items specified in the tariff, provided they achieved a commonwealth content, a certain percentage depending on their volume of production. This means that the total expenditure in the commonwealth in respect of a given car had to be a percentage of the total cost of the car, and if a manufacturer were able to achieve this—in large operations a 60-percent figure—he would then have the right to import certain items listed in the tariff duty free.

“Under the present plan, which contemplates duty-free entry of original equipment and cars into the United States from Canada, Canadian motorcar manufacturers—all of them, not merely the three mentioned by the honorable member for Wellington South—will have to do a number of things, the result of which will be in the aggregate an increase in the production in Canada and

¹⁹ Hearings before a subcommittee of the Committee on Foreign Relations, U.S. Senate, Feb. 10, 1965, p. 6.

²⁰ *Ibid.*, pp. 17 and 19.

²¹ Note the necessity for common action and planning among the manufacturers implicit in this statement.

an increase in overall automotive activity here. Within the next 3 years this will mean an increase of about one-third, or 30 percent over the 1964 level.

"This will be achieved by having the motorcar manufacturers undertake in respect of cars that they will produce in Canada for the domestic market to continue to incorporate in those cars Canadian added value in an amount not less than that for the base year, or in other words a floor. In addition to that, they will have to undertake to incorporate in all cars manufactured for the Canadian market Canadian added value to the extent of 60 percent of the value of the increased sales to the Canadian market. In addition to that, they will undertake individually to achieve a specified figure, which is different for each firm, in respect of additional Canadian production. This has reference to the three levels, one superimposed on another. It is as a result of this that manufacturers in Canada will increase by one-third the value of automotive manufacturing in Canada in the next 3 years.

"We are persuaded, as I think all automotive industry people are, that this plan will result in a substantial increase in activity in the whole automotive field. There are undoubtedly going to be some changes both in technique of production and, in some instances, the location of production. The gross result will be a substantial increase.

"My department is very concerned to see that where changes take place they take place in as orderly a fashion as possible, and we are paying special attention to those who are fearful of severe dislocation. We are also taking steps to see that what assistance the Federal Government is able to give is given in order to make the transition easier for all."

THREAT OF INCREASED CANADIAN CONTENT

The effect of all this on the U.S. automotive parts industry is not yet clear, but it can be imagined. It seems likely that the Canadian subsidiaries of the U.S. manufacturers will import duty free from the United States the "captive" parts produced by their parent companies. At the same time, in order to maintain the Canadian added value of the vehicle, and fulfill their commitments to the Canadian Government, they will increase their purchases of Canadian-manufactured parts.

The fact is that under this plan the vehicle manufacturers will decide which parts are to be produced in Canada, and which in the United States. In the new "rationalized production," the sales of the independent parts manufacturers in both the United States and Canada will no longer depend on the worth of their products, or even the price of the products. Rather, it will depend upon which parts the vehicle manufacturer has decided to purchase in one country as opposed to the other in his effort to maintain his duty-free status in Canada and use it to the best advantage.

These considerations will affect the independent parts manufacturer in his capacity as a supplier of original equipment to the vehicle manufacturers. In his capacity as their competitor, he will be affected by the tariff remission granted to them, since they may use this bonus to further invade the replacement market.

Restraints of this kind are foreign to our established antitrust philosophy. If that philosophy is to be changed, it should be done deliberately and after long consideration—not as a side-result of a tariff act.

(3) This bill gives tacit approval to private unpublished agreements made by U.S. corporations with a foreign government.

A trade agreement is not a "treaty" within the constitutional meaning of that term,²² and is accordingly not submitted to the Senate in that light. Nevertheless, this particular trade agreement involves elements which resemble those of a treaty, and it should be subjected to the same searching questions as would be directed to it if it were called a "treaty."

The unique (and one might say, humiliating) aspect of this agreement between two sovereign States is that it was apparently conditioned on subsidiary agreements on the part of private corporations. As the *Toronto Globe and Mail* of January 6, 1965, reported—"According to a source close to the negotiations between the two countries, the Canadian Government is not prepared to enter an agreement with the United States until it can receive an undertaking from General Motors that Canadian automotive manufacturers will be given an acceptable share of the U.S. market. Canadian authorities are keeping

²² *Star-Kist Foods*, 47 C.C.P.A. 52 (1959), citing *United States v. Pink*, 315 U.S. 203.

their fingers crossed on whether or not it will be possible to reach a satisfactory understanding with the corporation."

This, of course, is newspaper reporting. However, the testimony of Mr. Johnson before the Senate committee is equally surprising:"

"Both Governments and the industry anticipate that the removal of duties and the reduction of other barriers will result in an increase in the market for automobiles and parts above the increase which would otherwise have developed. Naturally, Canada wants to be sure that the Canadian automobile industry will participate in this growth. Therefore, Canada has asked each of the Canadian producers for a statement of their intentions for expansion of their production in Canada. They (the agreements) are not now a matter of public record. We did not participate, of course, in the negotiations and we are not familiar with the contents of the arrangements between each company and the Canadian Government and the companies. It would not be something we would have any say in (whether to make statements public). We thought it ought to be a matter of record that there have been such conversations between the Canadian Government and each of the Canadian automobile manufacturers, and that the results of these conversations—that is, the letters of assurance, or statements of intentions—are an important part of this agreement as a whole from the Canadian standpoint" (p. 23 report).

(Question by Senator Symington: Has our Government any plans to ask our automobile manufacturers what their plans are in this country?)

Answer. No, sir; we have not felt that it was a necessary part of this arrangement that we should explore the investment plans of our own companies.

It seems to me regrettable that the two Governments should have apparently made their policies dependent on the corporation and commitments of private companies. This agreement follows an unwise, unsound and arbitrary action of Canada to promote employment in Canada by export subsidy to the vehicle manufacturers.

Our Government officials state that this plan is better than the former unfair remission of duties plan, and express fear of more drastic action Canada might adopt.

So through the fear of further unilateral action from Canada, the Government wants Congress to adopt a one-sided agreement which establishes the precedent of selecting one industry for special consideration. By such action, we would abandon our basic concept of competitive free enterprise to one of encouraging monopoly.

If the Congress approves this legislation it will:

1. Approve a significant departure from our traditional tariff policy.
2. Open U.S. markets to subsidized cars and automobile parts, and
3. Place its approval on agreements between vehicle manufacturers and the Canadian Government which drastically curtail the market for U.S.-made parts in Canada.
4. Create a most favorable condition for further concentration and monopolistic control of the automotive industry by the vehicle manufacturers, contrary to the spirit of our antitrust laws.

We urge the Congress to reject this legislation.

Mr. HALFPENNY. It must be remembered in studying or discussing this whole plan that when the phrase "Canadian automotive manufacturers" occurs in any discussion, that the manufacturers so described are (with only minor exceptions) subsidiaries of the U.S. motor vehicle manufacturers.

Also, that the vehicle manufacturers are both customers and competitors of the U.S. independent parts manufacturers.

This agreement is that will allow vehicles and parts to be imported free of duty when they are imported by a vehicle manufacturer provided he meets certain circumstances. I wish to stress therefore that the tariff elimination as far as Canada is concerned is conditional. To import new cars and parts for new cars the vehicle manufacturers must for the current year for which he is claiming duty-free status

²³ Footnote 13, supra, p. 23.

maintain or increase his Canadian production as compared with the base year August 1963 to 1964 and must maintain or increase the Canadian added value of the vehicle and in addition increase production by a substantial amount, the specific figure for each company making in the aggregate total of \$260 million while on the other hand the United States will allow duty free importation of motor vehicles and of parts for original equipment with no safeguards with respect to American content or the production requirements.

As for enlarging the foreign trade of the United States manufacturers, the plant is misdesigned to meet that objective and the results appear to be quite frightening according to newspaper reports coming into the country.

I have a reprint of the Wall Street Journal of March 31, under the heading "Chrysler Canadian Unit to Export 80,000 Vehicles to the United States in the Calendar Year 1966."

My central theme in my prepared statement is that this bill has ramifications far beyond those of the normal tariff act; that it is inconsistent with the basic philosophy of our established law in several respects and therefore it requires very careful scrutiny on the part of Congress and this committee.

The first part of pages 1 to 19 of my written presentation points out the inconsistencies with our normal tariff laws for many reasons.

I feel too, there should be public hearings, there should be some safeguards. But more important is our written presentation starting on page 9 which is that this bill is contrary to the spirit of our antitrust laws.

Mr. Chairman, I wish to point out that in reading the letters of commitment that was the first time the letters of undertaking were made available. I would like to point out that these letters of understaking of the vehicle manufacturers, just briefly looking at them this morning, indicate that possibly, as they say, the manufacturers did not get together.

But it is most peculiar, if you will turn to the letters, in the letters of undertaking between Chrysler with the Honorable Mr. Drury and the American Motors with the Honorable Mr. Drury, my brief scanning this morning would indicate that those letters are identical in content and also almost verbatim, word for word which would appear to be an unusual situation.

I would like to point out also that in these letters of undertaking of the vehicle manufacturers made available for the record, there are requests—mentioned in all these letters—from Canada.

The requests are not made available and it is almost impossible to understand the letters of undertaking unless we can view them in the light of the understanding of the request from the Canadian Government to these specific companies.

I think in reading those letters you will notice there is a great mention of requests, so it is almost impossible to determine just what was the situation. I feel that this tends to create a monopoly. It requires imminent cooperation of vehicle manufacturers with one another and planned economy rather than one governed by competition.

ATMOSPHERE OF TRADE AGREEMENT NEGOTIATIONS—CANADIAN
DEMAND FOR INCREASED EXPORTS

The trade agreement which this bill implements, though it is a bilateral agreement in its present form, is the culmination of years of unilateral effort on the part of Canada to increase its automotive exports. It was adopted in response to Canada's constant pressure in that direction, and is incomprehensible unless it is analyzed in that light.

In considering the various Canadian plans, it is necessary to bear in mind several basic propositions of which we are all well aware, but which tend to be overlooked in the press reports:

First, when the phrase "Canadian automotive manufacturers" occurs in any discussion, it must be remembered that the manufacturers so described are (with only minor exceptions) subsidiaries of the U.S. motor vehicle manufacturers: General Motors, Ford, Chrysler, American Motors, International Harvester, Kaiser, Jeep, and others. The bulk of Canadian automotive output in 1963 was accounted for by U.S. subsidiaries.

Second, U.S. vehicle manufacturers are to some extent customers of independent parts manufacturers for original equipment parts.

Third, U.S. vehicle manufacturers are, particularly in recent years, extremely active in the replacement market, and are accordingly growing competitors of the independent parts manufacturers. This growing competition is demonstrated by Ford's acquisition of Autolite, and its Fo Mo Co line; Genreal Motor's United Motor Service Division, and its AC Division; and Chrysler's Mo Par Parts Division. These vehicle manufacturers are now not only offering parts for their own makes of vehicles, but a full line of parts for all other makes of cars. All of these products, of course, are distributed in direct competition with the independent manufacturers and suppliers in the replacement market.

BASIC GOAL OF THE BLADEN PLAN—DUTIES REMISSION

In August 1960, Prof. Vincent Wheeler Bladen was appointed a Canadian Royal Commissioner to study the possibility of making the products of the Canadian motor vehicle parts industry more "competitive" in the export markets.¹ He originated the basic concept which has been followed ever since—subsidization of exports in the form of forgiveness of duty on imports for the vehicle manufacturers.

EXPORT INCENTIVES

This policy was put into practice in a limited way in 1962 by Order-in-Council P.C. 1962-1/1536, which allowed automotive companies to bring engines, engine blocks, and automatic transmissions into the country and earn a remission of duty on them to the extent that the value of the imports was counterbalanced by exports of Canadian-made automotive parts to the United States. This plan was designed to increase the manufacture of car parts in Canada, and worked extremely well.²

¹ Toronto Globe & Mail, Nov. 3, 1964

² House of Commons Debate, vol. 109, No. 246, Official Reports of Mar. 31, 1965.

This was carried further in 1963 by Order-in-Council P.C. 1963-1/1544 (called the "duty remission plan," or the "Drury mark 1 plan"), under which duty could be forgiven (as counterbalanced by exports) on a wide range of motor vehicle parts imported as original equipment as well as motor vehicles.

According to Canadian Minister of Industry Drury in a speech to the annual meeting of the Automotive Parts Manufacturers Association in October 1963, "The purpose of the plan is to substantially expand the size of markets available to Canadian vehicles and automotive parts, particularly the latter."

On March 26, 1964, the Wall Street Journal reported that "The Canadian Government seems to be succeeding in its attempts to get American carmakers to expand production of auto parts in Canada—at the expense of the United States." In fact, the effect was so noticeable that a substantial body of opinion in this country believed that the "Drury mark 1" plan was in law a grant or bounty on exports.

COUNTERVAILING DUTIES ACTION

Title 19, United States Code, section 1303 requires the imposition of a countervailing duty whenever any country shall pay, directly or indirectly, any bounty or grant upon the manufacture, production, or export of any article manufactured in that country. In accordance with that law, several petitions were filed with the Secretary of the Treasury, asking that such a duty be imposed.³ Although the second of those petitions was filed in July 1964, no action had been taken by the Department in January of 1965. At that time, the present plan was adopted.

Briefly, the present plan is that Canada will allow vehicles and parts for original equipment to be imported free of duty when they are imported by a vehicle manufacturer, provided he meets certain conditions.⁴ I wish to stress, therefore, that the tariff elimination on the Canadian is conditional. To import new cars and parts for new cars, the vehicle manufacturers must (for the current year for which he is claiming duty-free status) maintain or increase his Canadian production as compared to the "base year," August 1963-64, and must maintain or increase the "Canadian added value" of the vehicle. On the other hand, the United States will allow the duty-free importation of motor vehicles and of parts for original equipment, with no safeguards with respect to American content or production requirements.

This plan is presented to Congress in the form of a tariff bill. Actually, as shown below, it is much more than that and requires the careful analysis accorded to bills of major importance.

(1) This bill requires the careful scrutiny of Congress because it is a departure from our traditional tariff policy in (a) its objectives, (b) its substance, and (c) the procedure by which it came into being.

(A). *Objectives of the plan*

This country's early tariff policy was based on the theory that import duties would be used to enable American industry to meet competition

³ One petition was filed by the Modine Manufacturing Co. of Racine, Wis.; the other on behalf of Automotive Service Industry Association, was filed by me as counsel.

⁴ It has been estimated that the vehicle manufacturers will earn \$50,000,000 a year in duty remissions.

from foreign businesses which enjoyed lower production costs. Under this philosophy, import duties were used to equalize the differences between costs of producing here and abroad.⁵

This basically protective attitude change in 1930, when the President was given power to adjust tariff (up to 50 percent of established levels) "for the purpose of expanding foreign markets for the products of the United States * * * so that foreign markets will be made available to those branches of American production which require and are capable of developing such outlets * * *." ⁶ The President was authorized to make adjustments when he found as a fact that restrictions were "unduly burdening and restricting the foreign trade of the United States." The same section gave the President authority to enter into trade agreements with other countries, though that authority under that particular section expired June 30, 1962.⁷

The Trade Expansion Act of 1962 provided that (after June 30, 1962, and before July 1, 1967) the President may increase or decrease duties within set limits and enter into trade agreements to that effect whenever he "determines that any existing duties or import restrictions of any foreign country or the United States are unduly burdening and restricting the foreign trade of the United States," and the general purposes of the act are served.⁸ Those general purposes are to "stimulate the economic growth of the United States and maintain and enlarge foreign markets for the products of" the United States, and to "strengthen economic relations with foreign countries through the development of open and nondiscriminatory trading in the free world."⁹

Although the President was not acting under the authority of the Trade Expansion Act in this instance, it is surely relevant in that it expresses the will of Congress as to the circumstances under which tariff adjustments should be made.¹⁰ There is no indication that those circumstances are here present.

In fact, the cornerstone requirement appears to be missing: There has been no official comment to the effect that the foreign trade of the United States is "burdened" or "restricted," or that the products of the United States will find an "enlarged foreign market."¹¹ The proposed bill does not purport to deal with either of these assumptions. Rather, so far as can be gleaned from the official pronouncements on the subject, its sole objectives are twofold. As the President put it in his transmittal letter to Congress: (1) "Canada will have achieved her objective of increasing her automotive production. (2) United States manufacturers will be able to plan their production to make most efficient use of their plants, whether in Canada or the United States."

These purposes have no relation to our established trade policy, which under the law is aimed at enlarging the foreign markets of U.S. manufacturers and developing nondiscriminatory trading in the free world. Beginning with the second point, this pact is restrictive and discriminatory in that it is restricted to Canada, excluding the rest of the free world. Complaints have been widespread that it violates the basic principles of the General Agreement on Tariffs and Trade (GATT).

⁵ *Hampton v. United States*, 276 U.S. 394, 411 (1928).

⁶ 19 U.S.C.A. 1351.

⁷ 19 U.S.C.A. 1352, note.

⁸ 19 U.S.C.A. 1821.

⁹ 19 U.S.C. 1801.

¹⁰ And could not do so, because of the 50-percent limitation mentioned above.

¹¹ In fact, the President's message contemplates that dislocation in the industry will result from a decrease in exports.

As for enlarging the foreign trade of U.S. manufacturers, the plan is misdesigned to meet that objective, and the results thus far appear to be frightening. According to newspaper reports, the results so far have been to increase the volume of Canadian goods coming into this country.

Chrysler Canada, Ltd., according to the Wall Street Journal of March 31, "plans to export 80,000 vehicles to the United States in 1966." The same newspaper on April 6 reported that the Ford Motor Co. is now importing 400 cars a month from its Oakville, Ontario, plant into upstate New York. The same article comments:

The auto companies aren't eager to publicize their plans to sell Canadian-built cars in the United States. The tariff agreement itself hasn't been ratified by the U.S. Congress and the news of work moving into Canada might cause trouble in Congress.

With such results already known, it is obvious that this is not an ordinary tariff bill and should not be examined in that light. If these results are to become part of our national policy, they should be adopted only after the most thorough consideration and full and open debate.

(B) Substance of the plan

The plan is unusual as a tariff measure from several points of view which can be briefly summarized:

(1) Tariffs will be cut "to zero, all at one time," as the President put it. This is more drastic than the original negotiations contemplated which were apparently aimed at a gradual reduction over a 4- or 5-year period.¹²

(2) The "end use" test is adopted; that is, the parts which may be admitted free of duty are those which are intended for use as original equipment. The "end use" test is not only discredited in general, but in this instance is difficult to police and the results may be harmful to competition.^{13 14}

(C) Procedure by which the plan came into being

The plan presented here runs counter to the expressed will of Congress in the Trade Expansion Act of 1962 in that its announcement was not preceded by any of the public hearings contemplated by that act, nor were any of the guidelines for decision specified by that act followed, although the adjustments under that act would be only up to 50 percent—not complete elimination as here.

The Trade Expansion Act requires, in connection with any proposed trade agreement, that the President shall advise the Tariff Commission of the proposal, and it shall report to him on the "probable economic effect" of the modifications of duties.¹⁵ In preparing its advice to the President, the Commission is directed by Congress to take the following steps:

Investigate conditions, causes, and effects relating to competition between the foreign industries producing the articles in question and the domestic industries producing the like or directly competitive articles;

Analyze the production, trade and consumption of each like or directly competitive article, taking into consideration employment, profit levels, and use of

¹² Financial Times of Canada, Oct. 5, 1964.

¹³ Congress recodified the tariff schedules in 1962 to eliminate "end use" designations.

¹⁴ A press release from the office of Senator Hartke on Jan. 13 indicated doubt as to whether parts entering for original equipment will not be "diverted into the replacement market."

¹⁵ 19 U.S.C. 1841.

productive facilities with respect to the domestic industries concerned, and such other economic factors in such industries as it considers relevant, including prices, wages, sales, inventories, patterns of demand, capital investment, obsolescence of equipment, and diversification of production;

Describe the probable nature and extent of any significant change in employment, profit levels, use of productive facilities and such other conditions as it deems relevant in the domestic industries concerned which it believes such modifications would cause; and

Make special studies (including studies of real wages paid in foreign supplying countries), whenever deemed to be warranted, of particular proposed modifications affecting U.S. industry, agriculture, and labor, utilizing to the fullest extent practicable the facilities of the U.S. attaché abroad and other appropriate personnel of the United States.

Further, the President is directed to designate an agency to hold public hearings in connection with a proposed trade agreement at which, after "reasonable notice," interested persons may present their views.¹⁶

These are reasonable steps, and are required in the case of an adjustment of less than 50 percent. It is suggested that since the prescribed routine has not been followed, the responsible congressional committees should use these requirements as guides and make as detailed an examination here as would be required in the case of a less drastic alteration of our tariff structure, or request that the U.S. Tariff Commission make such a study.

(2) This bill is contrary to the spirit of the antitrust laws in that—

(a) It tends to create a monopoly.

(b) It requires the intimate cooperation of the major vehicle manufacturers with one another.

(c) It is aimed at achieving a planned economy rather than one governed by competition.

The Sherman Act, the oldest and probably the most respected, of our antitrust laws, expressed the deep distrust of monopolies which is a cornerstone of our economic philosophy. Mr. William H. Orrick, Jr., head of the Justice Department's Antitrust Division, summarized this feeling in recent testimony before the Senate Antitrust and Monopoly Subcommittee:

Congress' dedication to antitrust goals has always rested on its recognition that concentration of industrial power may lead to the police state.

The estimated \$50,000 a year which the major vehicle manufacturers will earn in tariff remissions from Canada will surely contribute to the concentration of industrial power to which Mr. Orrick refers.

And this is particularly true when one considers the stature of the recipients of that grant. According to the March 24, 1965, "Investors Reader" published by Merrill Lynch, Pierce, Fenner & Smith, the major American vehicle manufacturers are included in the 66 companies with sales of over \$1 billion a year.

American Motors barely made it in 1964 with sales of just over a billion; International Harvester was 23d with \$2 billion plus; Chrysler 9th with over \$4 billion; Ford was fourth on the list with over \$9 billion, and General Motors led the parade with sales of almost \$17 billion.

On Canada's side of the pact (to which our Government was a party) a direct monopoly is granted to the companies presently in the business of manufacturing motor vehicles. This grant is made by

¹⁶ 19 U.S.C.A. 1843.

way of the definition of a manufacturer which can qualify for duty-free imports as one who produced vehicles in Canada in the period of 12 months ending on the 31st day of July of the year in which the importation is made.

The significant fact about this monopoly grant, in which Congress is now invited to acquiesce, is that the recipients are subsidiaries of U. S. corporations.

The October 5, 1964, *Financial Times* of Canada commented while the plan was in its formative stages: "The possible barrier of U.S. antitrust laws has been considered, but officials consider it would not affect the kind of common action required by the auto companies to implement the plan."

Since, as I will mention later, we do not know what kind of common action will be required of the vehicle manufacturers, detailed comment is impossible. However, the Sherman Act prohibits agreements in restraint of trade, and common action on the part of the competitors is often illegal for that reason. And even if it is not (strictly speaking) illegal, certainly it is contrary to the will of Congress and the spirit of the antitrust laws.

The questions which this committee and Congress must consider are: Will this act and the trade agreement which it implements put the seal of approval on conduct which would otherwise be prohibited by the Sherman Act?

Will it change the theory and basic premises of our antitrust laws?

The other thing we are concerned with is the planned economy. According to the President's transmittal letter, the ultimate objective of this plan is "full integration of the North American automobile industry" though it is recognized that "it cannot be brought about all at once."

Thus the background information explains that costs are higher in Canada because of short production runs. United States and Canadian duties—

have helped to shape a pattern of trade and production that falls far short of the efficient pattern that could otherwise be developed. With tariffs and other restrictive devices eliminated, an American motor company having a Canadian subsidiary will be able, gradually, to concentrate in Canada on a limited number of models—and on those component parts which could be most efficiently produced in Canada—while supplying the Canadian customer with a full range of other models from American plants. The result, over time, will be to create a rationalized and integrated North American industry.

Mr. G. Griffith Johnson, Assistant Secretary of State for Economic Affairs, testified before a Senate committee:

As this plan goes into effect, the Canadian automobile companies are going to have to develop a much more efficient production operation. And to make it more efficient, it means they are going to have to specialize on certain limited models, on certain parts which can then be sold on both sides of the border.

The success of this agreement depends upon certain investment decisions being taken by the automobile companies, both parts and the major companies, on both sides of the border.

The necessity for, and inevitability of, a "rationalized" or "planned" industry is not apparent from the bill which Congress is being asked to adopt, but is inherent in the trade agreement, which includes the Canadian part of the pact.

In turn, half of that agreement is visible, and half invisible.

The visible portion is included in the trade agreement (Annex A, par. 5, committee report, pp. 3-4) and in the implementing Canadian Order in Council, and provides that to qualify as a "manufacturer" who may import duty free a producer must in each case in each 12-month period subsequent to the base year, maintain the "Canadian value added" of the vehicles it produces in Canada at a level equal to, or greater than, its "Canadian value added" for the base year.

The invisible—and most important—part of the proposed plan is the private agreement between the major vehicle manufacturers and the Canadian Government that the manufacturers, as I mentioned previously—we do not have all the releases—but I do have a release of Mr. Ron W. Todgham, president of Chrysler, Canada, Ltd., announced in a press release issued by his office dated January 26, 1965, that "each manufacturer's undertaking in this regard is confidential, known to himself and the Government. But when you add them all together, they come to a total of \$260 million for the automotive industry in Canada."

He added that the Canadian motor vehicle manufacturers—collectively—have 3 years to boost their Canadian production by this amount, but once at this level must maintain it on a yearly basis.

Also these agreements do not point out how long this remission of \$50 million which is a windfall to the vehicle manufacturers will continue but it is obvious from the witnesses that have appeared here that there was some type of understanding between these private concerns and foreign government.

This \$260 million in parts business to be given by private agreement to Canada, is the key feature of the plan. This, plus the Canadian value added requirement, serves to limit the sales of parts by U.S. parts manufacturers to Canadian vehicle manufacturers—and to make meaningless, or at least unimportant, the fact that those parts can be imported duty free.

Charles M. Drury, Minister of Industry, answered questions in the House of Commons on this point on March 31, 1965. As it appears in the official report of the proceedings, he explained it this way:

Under the present plan which contemplates duty-free entry of original equipment and cars into the United States from Canada, Canadian motorcar manufacturers—all of them, not merely the three mentioned by the honorable member for Wellington South—will have to do a number of things, the result of which will be in the aggregate, an increase in the production in Canada and an increase in overall automotive activity here. Within the next 3 years this will mean an increase of about one-third, or 30 percent over the 1964 level.

This will be achieved by having the motorcar manufacturers undertake, in respect of cars that they will produce in Canada for the domestic market, to continue to incorporate in those cars Canadian value added in an amount not less than that for the base year, or in other words a floor. In addition to that, they will have to undertake to incorporate in all cars manufactured for the Canadian market Canadian added value to the extent of 60 percent of the value of the increased sales to the Canadian market. In addition,

and this is most important,

to that, they will undertake individually to achieve a specified figure, which is different for each firm, in respect of additional Canadian production. This has reference to the three levels, one superimposed on another. It is as a result of this that manufacturers in Canada will increase by one-third the value of automobile manufacturing in Canada in the next 3 years.

The effect of all this on the U.S. automotive parts industry is not yet clear, but it can be imagined. It seems likely that the Canadian subsidiaries of the U.S. manufacturers will import duty free from the United States the "captive" parts produced by their parent companies. Large panels, such as bodies, frames, panels and so forth.

At the same time, in order to maintain the Canadian added value of the vehicle, and fulfill their commitments to the Canadian Government, they will increase their purchases of Canadian manufactured parts.

The fact is that under this plan the vehicle manufacturers will decide which parts are to be produced in Canada, and which in the United States. In the new "rationalized production," the sales of the independent parts manufacturers in both the United States and Canada will no longer depend on the worth of their products, or even the price of the products. Rather, it will depend upon which parts the vehicle manufacturer has decided to purchase in one country as opposed to the other in his effort to maintain his duty-free status in Canada and use it to the best advantage.

These considerations will affect the independent parts manufacturer in his capacity as a supplier of original equipment to the vehicle manufacturers. In his capacity as their competitor, he will be affected by the tariff remission granted to them, since they may use this bonus to further invade the replacement market.

Restraints of this kind are foreign to our antitrust philosophy. If that philosophy is to be changed, it should be done deliberately and after long consideration—not as a side effect of a tariff act.

**THIS BILL GIVES TACIT APPROVAL TO PRIVATE UNPUBLISHED AGREEMENTS
MADE BY U.S. CORPORATIONS WITH A FOREIGN GOVERNMENT**

A trade agreement is not a treaty within the constitutional meaning of that term and is accordingly not submitted to the Senate in that light. Nevertheless, this particular trade agreement involves elements which resemble those of a treaty, and it should be subjected to the same searching questions as would be directed to it were called a treaty.

The unique, and one might say, humiliating aspect of this agreement between two sovereign states is that it was apparently conditioned on subsidiary agreements on the part of private corporations. As the *Toronto Globe and Mail* of January 6, 1965, reported—

According to a source close to the negotiations between the two countries, the Canadian Government is not prepared to enter an agreement with the United States until it can receive an undertaking from General Motors and that Canadian automotive manufacturers will be given an acceptable share of the U.S. market.

Canadian authorities are keeping their fingers crossed on whether or not it will be possible to reach a satisfactory understanding with the corporation.

This, of course, is newspaper reporting. However, the testimony of Mr. Johnson before the Senate committee is equally surprising:

Both governments and the industry anticipate that the removal of duties and the reduction of other barriers will result in an increase in the market for automobiles and parts above the increase which would otherwise have developed.

Naturally, Canada wants to be sure that the Canadian automobile industry will participate in this growth. Therefore, Canada has asked each of the Canadian

producers for a statement of their intentions for expansion of their production in Canada.

They (the agreements), are not now a matter of public record. We did not participate, of course, in the negotiations and we are not familiar with the contents of the arrangements between each company and the Canadian Government and the companies. It would not be something we would have any say in (whether to make statements public) and we thought it ought to be a matter of record that there have been such conversations between the Canadian Government and each of the Canadian automobile manufacturers, and that the results of these conversations—that is, the letters of assurance, or statements of intentions—are an important part of this agreement as a whole from the Canadian standpoint.

Question by Senator Symington. Has our Government any plans to ask our automobile manufacturers what their plans are in this country?

Answer. No, sir; we have not felt that it was a necessary part of this arrangement that we should explore the investment plans of our own companies.

It seems to me regrettable that the two governments should have apparently made their policies dependent on the cooperation and commitments of private companies.

This agreement follows an unwise, and unsound and arbitrary action of Canada to promote employment in Canada by export subsidy to the vehicle manufacturers.

Our Government officials state that this plan is better than the former unfair remission plan, and express fear that there is the possibility of more drastic action Canada might adopt.

So through the fear of further unilateral action from Canada, our Government wants Congress to adopt a one-sided agreement which establishes the precedent of selecting one industry for special consideration. By such action, we would abandon our basic concept of competitive free enterprise to one of encouraging monopoly.

If the Congress approves this legislation it will:

1. Approve a significant departure from our traditional tariff policy.

2. Open U.S. markets to subsidized cars and automobile parts and

3. Place its approval on agreements between vehicle manufacturers and the Canadian Government which drastically curtail the market for U.S.-made parts in Canada.

4. Create a most favorable condition for further concentration and monopolistic control of the automotive industry by the vehicle manufacturers, contrary to the spirit of our antitrust laws.

We urge the Congress to reject this legislation.

Mr. Chairman and members of the committee, we appreciate this opportunity to present our viewpoint on this important legislation.

The CHAIRMAN. We appreciate your doing so.

Any questions?

Mrs. GRIFFITHS. In the first place I would like to say to the gentleman I think you raised some interesting questions and made some interesting points, but as a matter of fact would it not have been possible for Canada to have again this deal with the European Common Market?

Mr. HALFFENNY. Canada could make a deal of any kind they desired but I don't think the Canadians want European cars. They have indicated that; they read our ads, they hear our radios, they demand our cars.

Mrs. GRIFFITHS. All possible, but still the Government could have forced them the other way. I think the testimony showed here at

one time Canada did purchase 27 percent of their cars out of Europe. As a matter of fact, would it not have been possibly greatly to your benefit, in view of the fact that there are competitors on the foreign products, maybe they could have made a better deal with the European Common Market on the products if they had made this deal with the European Common Market?

Mr. HALFPENNY. I would doubt that. As mentioned by the vehicle manufacturers, they all have subsidiaries in various foreign countries.

Mrs. GRIFFITHS. Right, so that in reality it would have made little difference to the big auto manufacturers whether the deal were made with Europe or with America because they are going to profit anyhow.

Isn't that right?

Mr. HALFPENNY. Probably.

Mrs. GRIFFITHS. Now isn't it also true that for all practical purposes the manufacturers determine which parts manufacturers survive under any circumstances by placing their orders with them?

Mr. HALFPENNY. Survive?

Mrs. GRIFFITHS. Survive.

Mr. HALFPENNY. No, that is not true.

Mrs. GRIFFITHS. It is almost true; for practical purposes it is true.

Mr. HALFPENNY. We have hundreds of small, independent manufacturers that have been able to compete very well with the vehicle manufacturers and in fact out compete them, but we cannot now do that if we are going to have the Government side with the Big Three in competition.

In a competitive market we have been successful in competing with them for the market heretofore.

Mrs. GRIFFITHS. I believe the testimony said yesterday that those companies that could have done the best would have had to have the original production line on the parts.

Mr. HALFPENNY. That is right.

Mrs. GRIFFITHS. So to that extent the manufacturers always have.

Mr. HALFPENNY. Yes, and that is what we are concerned about because now they can threaten them, and they always threaten them with the possibility that they will further integrate and make all their parts if they do not do it cheap enough. Now they can also use the fact that they can produce it in Canada, and with the talk of integration and producing large runs efficiently they will further take away from the independent parts manufacturer.

The Big Three are primarily shooting, and have been for a number of years, at the replacement market.

Mrs. GRIFFITHS. But to an extent it is merely a matter of degree in what is being done because all that could have been done anyhow, there was never any point at which they could not have done it.

Mr. HALFPENNY. Yes, but we had certain legal remedies on the books that our Government failed to use.

Mrs. GRIFFITHS. But you don't have a legal remedy against the fact that the agreement could have been made by Canada with the Common Market?

Mr. HALFPENNY. I don't think the Canadian people, as I pointed out, would accept it. I think the Canadian Government would have failed if they attempted to force that on the Canadian people. I think

they are as intelligent as our people, and would not be browbeaten into accepting one make of automobile.

Mrs. GRIFFITHS. In fact this was available?

Mr. HALFPENNY. That is right.

Mrs. GRIFFITHS. So that if there is any harm, that harm could have been far greater by a different sort of being?

Mr. HALFPENNY. I am not sure Mrs. Griffiths, that the harm would have been greater if this ends up eliminating hundreds of small companies located throughout the United States and even small companies in your district. If these people are unemployed or have to sell out to the Big Three, I don't think it is in the national welfare.

Mrs. GRIFFITHS. Well, I think it is in the national welfare that we keep the Canadian market. I don't think we can afford to release the Canadian market.

I think that there is a great advantage to us in having the Canadian market. I think there is an enormous advantage, if this works, in extending it, also to Mexico and extending it in other parts. I think it would be enormously advantageous to the manufacturers of all parts of any type whatsoever, either in automobiles or in any other mechanism, if we created one vast market.

If this is one of the ways to create it, then I am for that creation.

Mr. HALFPENNY. I think we would all agree with that but in doing so we do not think that the large ones should be subsidized by the foreign government, nor do we think it should be placed in a position that they are dictating the complete terms.

Mrs. GRIFFITHS. I am very interested in this \$50 million pick up. As a matter of fact does not Canada have a corporate tax?

Mr. HALFPENNY. Yes.

Mrs. GRIFFITHS. What is it, do you know?

Mr. HALFPENNY. I do not know.

Mrs. GRIFFITHS. Will they not pick up part of that \$50 million?

Mr. HALFPENNY. That is what I cannot tell you and I don't think this committee knows what those assurances are of the Canadian Government. There were discussions as to what the depreciation scale should be and so forth. I feel the American public and the committee should know all of the facts.

What is the deal that was made and what assurances were given by Canadian Governments to the vehicles manufacturers in turn for their assurances?

I don't know.

Mrs. GRIFFITHS. You have been given some of the copies of all of these assurances.

Let me say again that I think that your testimony was well considered but I think further that in the long run in place of the harm that you anticipated I think that finally this is going to be of great assistance and that in place of your finding that your manufacturers are hurt you will find an advantage in sales volumes.

Mr. HALFPENNY. I hope you are right.

The CHAIRMAN. Any other questions?

Again we thank you, sir.

Mr. HALFPENNY. Thank you, Mr. Chairman.

(The following letter was received by the committee:)

LAW OFFICES, HALFPENNY, HAHN & RYAN,
Chicago, Ill., May 5, 1965.

HON. WILBUR D. MILLS,
Chairman, Committee on Ways and Means, U.S. House of Representatives, House
Office Building, Washington, D.C.

DEAR MR. CHAIRMAN: On Tuesday, April 27, you directed that the "letters of undertaking" from four vehicle manufacturers to the Canadian Government be printed and made available to interested parties. This directive has shed additional light on the whole United States-Canadian automotive trade agreement, for which we are grateful.

However, Mr. Chairman, we note an amazing, almost word-for-word similarity among the letters. We also note that the letter from General Motors of Canada, Ltd., states "This letter is in response to your request for a statement." Further we note that the Ford Motor Co. of Canada, Ltd., letter of January 14, 1965, states, "You will recall that our company and its parent, Ford Motor Co., have made commitments to spend in excess of \$50 million to increase production of a limited range of automotive engines in Canada for use in our Canadian plants and for export to the United States."

We believe, Mr. Chairman, that the letters of undertaking can be evaluated soundly, only in the light of the request from the Canadian Government. As it now stands, we know the answer, without knowing the question.

Please note also that the word "undertaking" is equivocal, and ordinarily means something more than a mere "statement of intention." Thus, Webster's International defines it as a "Promise or pledge; a guarantee." Ballentine's Law Dictionary agrees, defining it as "A promise to perform some act; a bond; a recognizance." It is used technically in the law to mean a promise in writing given as security for the performance of some particular act required in a judicial proceeding (90 C.J.S. 1032).

Accordingly, we request that the letters from the Canadian Government to the motor vehicle manufacturers be made part of the record and available to all interested parties. In addition, we request the letter of commitment from the parent Ford Motor Co. be made part of the record and available to all interested parties.

Sincerely yours,

HAROLD T. HALFPENNY.

STATEMENT BY THE DEPARTMENT OF STATE

(Received May 11, 1965)

The committee, through its staff, has asked the Department to provide the committee with "the letters from the Canadian Government to the motor vehicle manufacturers" to which Mr. Harold T. Halfpenny refers in the last paragraph of his letter to the committee of May 5, 1965.

The Department understands that there were no letters of the kind to which Mr. Halfpenny refers.

STATEMENT BY THE FORD MOTOR CO.

(Received May 12, 1965)

The committee has been informed by the Ford Motor Co. that there is no "letter of commitment" to the Canadian Government from either the parent company or its Canadian subsidiary relative to Ford spending "in excess of \$50 million" to increase certain automobile engine production in Canada. The "commitments" referred to in the company's third letter of undertaking of January 14, 1965, referred to the fact that during the previous year, Ford had signed contracts and made other arrangements for facilities, equipment, etc., and by these expenditures and obligations had "committed" itself to the engine building program.

The CHAIRMAN. Mr. Strackbein.

Mr. Strackbein, you have been before the committee on occasions in the past but for the purposes of this record, please identify yourself again.

**STATEMENT OF O. R. STRACKBEIN, CHAIRMAN, THE NATION-WIDE
COMMITTEE ON IMPORT-EXPORT POLICY**

Mr. STRACKBEIN. Thank you. The name is O. R. Strackbein. I am chairman of the Nation-Wide Committee on Import-Export Policy.

I appear here not as a direct party in interest but as representing other industries and organizations that I think have an indirect interest in this legislation.

My appearance before you is one of conditional opposition to H.R. 6960 which, if approved, would provide for a considerable latitude of free trade in automotive products between the United States and Canada.

The economic conditions that justify free trade between different countries are present in greater degree in this instance than in many others. The difference in wage rates between this country and Canada is of a much smaller magnitude than that prevailing between this country and the wages paid in many other countries. The difference is perhaps no greater than the gap between wages in different regions of the United States itself.

Nevertheless, however justified the experiment might be, two features of the agreement are objectionable.

One is the accommodation of a particular industry as if it stood in a special category by itself, entitled to special treatment.

The other lies in the special treatment of the employees and individual firms of the industry so far as adjustment assistance is concerned.

Unequal treatment and favoritism are not principles of good government. They have no higher virtue than negative discrimination.

Special treatment of one industry and one group of workers, lifted out of context of other industries entitled to equal protection or equal treatment, does not point to an orderly process.

Piecemeal delegations of power to the Executive going a step beyond the general delegation such as was made under the Trade Agreements Act have the further disadvantage of complicating our trade relations with other countries. Should the trade agreement with Canada be approved by the Congress, its validity may be contested by the contracting parties of the General Agreement on Tariffs and Trade. Should a decision be reached by GATT holding the Canadian agreement to be in contravention of the general agreement, we must offer compensation to other GATT members. This would mean the reduction of duties on other products exported to us by GATT members as a measure of compensation for the discrimination of which we were held guilty.

Other domestic industries must then pay for the benefits extended to the automotive industry. This would represent not mere favoritism to an industry; but in addition, detriment to other industries that were no parties to the transaction, had not been consulted and were in the position of innocent bystanders.

Would such a course represent good government? The example given is based on more than hypothetical ground. The principle of compensation under GATT is a recognized practice.

Perhaps more distinctly offensive to the sense of fair play is to be found in the provisions of the bill that would accord special treatment to the workers in the automotive industry as well as to parts manufacturers in this country should they be injured by the Canadian trade agreement.

The Trade Expansion Act of 1962 sets forth an elaborate formula for the dispensing of adjustment assistance to industry and labor if they are injured by tariff reductions.

It should be a well-known fact that after 21½ years not a single case has survived inquiry by the Tariff Commission. Sixteen cases have been processed and all but one have been rejected by unanimous decision of the Tariff Commission. The law laid down conditions that were so draconian, so tight and severe, that not a single member of the Tariff Commission has been able in 15 out of the 16 cases coming before it, to find affirmatively for the applicants. These have consisted of entire industries, of individual companies, and of labor unions.

Now comes the trade agreement with Canada, and it proposes to give a special dispensation that will make it easier for aggrieved companies or aggrieved workers in the automotive industry to obtain relief.

This proposal spells rank discrimination and it must lead any citizen to wonder what kind of government it is under which we are to live. We preach and we teach equal treatment and no special privileges. Our youngsters are properly indoctrinated with the principle that equality under the law stands on the highest level of civil government: that justice must be dispensed evenhandedly—meaning that there must be no favorites.

Perhaps it is naive to suggest that adjustment assistance, if it is to be given to anyone, should be dispensed equally to a company, to a group of workers, or to an industry whether the company employs 50 workers or 50,000, or whether a worker group consists of 50 employees or 50,000.

Evidently it does make a difference, indeed, a very considerable difference, who it is that is to be accommodated. In other words, quantity is more important than the principle of equality of treatment.

The requirements under this bill for adjustment assistance are distinctly softer than those contained in the Trade Expansion Act of 1962. Under the provisions of that act the barriers are steep. The applicant must surmount two major obstacles to qualify for an affirmative recommendation by the Tariff Commission. He must prove that imports have increased and that a previous tariff reduction was the major cause of the increase in imports. He must then prove further that the distressful conditions complained of were in turn caused in major part by the increased imports. If he fails in either, he is left without further procedure.

In the present bill the operation of the trade agreement need be only the primary factor in causing or threatening dislocation of the firm or group of workers, not the major factor.

Moreover, the Tariff Commission would be circumvented completely. It has no part in the procedure. The President is to make the determination. He, and not the Commission, is to hold a public hearing if it is requested.

Other industries or groups of workers must go to the Secretary of Commerce or the Secretary of Labor if they survive the Tariff Com-

mission—which, incidentally, none of them have succeeded in doing. There is no short circuit that takes them directly to the White House. Oh, no. This is a privilege to be reserved for the elect.

Once upon a time, it has been related, Mr. Stalin, a Russian, was informed that a proposal he had made was opposed by the Pope. The dictator very neatly disposed of the question by simply asking: "How many divisions has the Pope?"

This response represented the ascendancy of quantity over principle.

Mr. Chairman, it has been reported in the press that the United Automobile Workers would oppose the approval of this trade agreement unless it made special provision for adjustment assistance distinctly better than the one contained in the Trade Expansion Act that applies to everyone else in the United States.

It might be worth some reflection by the United Automobile Workers that in 1962 the price for the AFL-CIO support of the Trade Expansion Act was inclusion of the adjustment assistance provisions. They were included. The results have been something less than handsome.

Other than the strictures here presented, Mr. Chairman and members of the committee, we have no objections to the agreement at present.

I want to emphasize the statement "at present" because some of the testimony I heard this morning might change that.

The CHAIRMAN. Mr. Strackbein, I appreciate your coming to the committee again and giving us the benefit of your thinking.

Are there any questions? Thank you, sir, very much.

Mr. Purcell?

Mr. Purcell, if you will identify yourself for our record by giving us your name, address, and the capacity in which you appear, you may be recognized.

STATEMENT OF HARRY B. PURCELL ON BEHALF OF THE ANTI-FRICTION BEARING MANUFACTURERS ASSOCIATION

Mr. PURCELL. Mr. Chairman, and members of the committee, my name is Harry B. Purcell. I am vice president of industrial relations of the Torrington, in Torrington, Conn.

I am speaking here, Mr. Chairman, on behalf of the Anti-Friction Bearing Manufacturers Association.

With your permission, I would like to identify the two gentlemen sitting here with me, Mr. Frank W. Tucker, manager of our Washington, D.C., office of my company; and Mr. Lew B. Martin, counsel of the AFBMA.

The CHAIRMAN. Glad to have you with us, sir, and you are recognized.

Mr. PURCELL. May I again thank you for the opportunity to state our views on the trade legislation. We feel this bill, H.R. 6960, contains certain features which will have a seriously harmful impact on this most important domestic industry.

Our association consists of some 40 producers of bearings and parts who account for well over three-fourths of the domestic production. The demands of our complex industrial society require the application of bearings in a staggering number of types, varieties, and sizes. To fulfill these needs, the modern antifriction-bearing industry produces over 100,000 different bearings, ranging from microscopic speci-

mens suitable for complex electronic gear to gargantuan bearings designed for steel and paper mills.

The principal consumer of bearings, however, is the automotive industry, where original equipment needs account for about 18 to 20 percent of U.S. consumption. Ball and roller bearings are used in the following automotive applications:

1. Front and rear wheels.
2. Clutch assemblies.
3. Transmission.
4. Differentials.
5. Drive line (universal joints).
6. Power-steering gear.
7. Steering-bell crank.
8. Alternators and generators.
9. Variable-speed fan drive.
10. In all power accessories.

Anywhere from 40 to 60 different bearings are necessary components in the manufacture of an automobile.

With such varied and multiple applications, it is readily apparent that any change affecting the trade in bearings for use in automobiles will have a profound reaction on the domestic industry. Imported bearings at present have a concession rate of duty of 3.4 cents per pound and 15 percent ad valorem. Under this duty rate, imports of Canadian bearings have grown from \$380,000 in 1958 to \$2.4 million in 1964; and Canada now ranks as the third largest supplier to the United States.

I would like to call attention at this point, Mr. Chairman, to a typographical error. In the printed statement it says 1954; it should be 1964.

Canadian bearing manufacturers have the machinery and the know-how to produce the same number of pieces in a given time as United States producers. The United States is at a competitive disadvantage, however, when labor rates are considered. While the cost of producing complete automobiles in Canada reportedly is 15 percent higher than in the United States, this is not the case with bearings.

Many of the bearings imported from Canada are for automotive uses both as original equipment and replacement parts. To withdraw the duty absolutely would have the effect of a magnet in attracting increased imports of these types bearings into the United States.

Increased imports of bearings will only compound an already alarming trend. The high level of imports of bearings in the size ranges of automotive bearings led the domestic industry on October 16, 1964, to apply to the Office of Emergency Planning to conduct an investigation under section 232 of the Trade Expansion Act of 1962. This investigation, which is still pending, is to determine if imports of bearings are in such quantities as to threaten to impair the national security.

It is important to note that most bearings, particularly those for automotive uses, are universal or multipurpose items. Relatively few are unique to the automotive industry. In other words, the same bearing could be used in tanks, weapons carriers, portable tools, electric motors, agricultural equipment, off-highway equipment and aircraft, to name only a few other applications. The front wheel bearing in

an automobile can be used in conveyor idlers, industrial gear motors, industrial speed reducers, farm machinery, gear boxes, power takeoffs, and transmissions. Alternator bearings, which are single-row deep-groove bearings, are the largest used of any bearing manufactured.

The fact that bearings possess no unique characteristics which would indicate that any of them are used primarily in connection with automobiles has been clarified by two recent actions of our Government.

Excise tax ruling TIR-691 stated:

Ball and roller bearings have a multiplicity of uses but possessing no unique characteristics of construction, design, or material which would indicate they are to be used primarily in connection with taxable motor vehicle articles are not automobile "parts or accessories" as contemplated by section 4061(b) of the Internal Revenue Code of 1964.

If bearings used in an automobile are not considered by the Internal Revenue Service as taxable as parts of an automobile, then it would seem to follow that these same bearings should not be considered as parts of automobiles for the purposes of the Canadian Trade Agreement.

The Tariff Schedules of the United States, with which I am sure this committee is familiar, has as one of its basic principles that if there is a specific provision for a universal use part, it should be so classified. This principle was recognized by this very same committee last year when it reported out H.R. 12253, the Tariff Schedules Technical Amendments Act of 1964. Although it was unknown to the domestic industry until last year, integral shaft bearings imported from Canada for use in automobile water pumps had been classified as parts of automobiles. This classification was contrary to the parts principles of the TSUS and the committee emphasized that these articles must be classified as bearings, not as parts of automobiles, and inserted section 29(e) in the bill to clarify this point.

To once again lump bearings in as parts of automobiles for the purpose of this legislation would run contra to this now well-established principle.

It is understood that the United States-Canadian Trade Agreement provides for a certifying procedure so that manufacturers can sign a certificate that they are importing the parts for original equipment purposes. However, since bearings are of a multipurpose nature, they are particularly susceptible of being diverted to other uses or being leaked to the replacement market.

It is strongly urged that H.R. 6960 be amended to remove TSUS item 680.36, relating to bearings, from section 405 therein.

The association is extremely apprehensive over section 202 of the bill, which would give the President blanket authority to negotiate agreements with other countries for the free entry of automobiles and original equipment parts and also for replacement parts. This legislation has arisen to meet a specific need. Section 202 goes far beyond this original purpose. It has not been demonstrated to our knowledge that either the national interest or the domestic automotive products industry would be served by such a delegation of authority.

West Germany, Japan, and the United Kingdom are already heavy exporters of bearings to the United States. The largest imports are in the 32-52 millimeter outside dimension bearings from Japan which are

automotive sizes. Any further concession, especially one as large as complete removal of the duty in an agreement with Japan, for instance, would be disastrous.

Second, to open up the replacement market to duty-free imports will have a serious impact on the domestic industry. The automotive replacement market accounts for over 10 percent of the consumption of bearings in the United States and is of especial concern to the domestic industry.

The association urges that the committee amend H.R. 6960 so as to remove section 202 therefrom.

Thank you very much, Mr. Chairman.

The CHAIRMAN. Thank you, Mr. Purcell.

Any questions?

Thank you, Mr. Purcell, for the information that you have given the committee. We appreciate your coming before the committee.

Mr. Hatton.

Mr. F. C. Hatton, Century Foundry Division, Century Electric Co., St. Louis, Mo. Is Mr. Hatton present?

If not, that completes the calendar. We will, without objection, give Mr. Hatton permission to insert his remarks in the record if he desires to do so. He may have been unavoidably detained.

Mr. BYRNES. Mr. Chairman, since the basis of this whole program is to attempt to balance the trade between the United States and Canada with particular reference in this instance to automobiles and parts, I think it would be advisable to have in the record of the hearings a table showing generally the commodity exchange between the two countries—U.S. exports to Canada, U.S. imports from Canada—so that we can see the relationship of the automobile trade and the imbalance there and the general trade between the two countries.

I would ask, Mr. Chairman, that the table be inserted at this point.

The CHAIRMAN. I think it should be. Without objection, it will be included at this point in the record.

(Table to be furnished follows:)

United States-Canadian trade in 1963

[In millions of dollars]

Commodity	U.S. exports to Canada	U.S. imports from Canada
Total, all commodities	4,039	3,826
Maize, unmilled	94	(¹)
Iron ore and concentrates	58	199
Coal and coke	136	5
Agricultural machinery	252	128
Machinery for special industries and n.e.s.	410	29
Electrical machinery	262	76
Motor vehicles and parts	490	24
Fish, fresh and preserved	8	108
Wood, logs and lumber	20	358
Pulp and waste paper	10	306
Paper and paperboard	43	683
Petroleum, crude and partly refined	(¹)	234
Nickel	7	146
Aluminium	22	110

¹ Less than \$500.

Source: Compiled by the U.S. Tariff Commission from official statistics of the U.S. Department of Commerce (FT 120 and FT 420).

The CHAIRMAN. Certain data has been requested for the record. Let the Chair advise that that material should be submitted to the committee not later than the close of business Thursday, May 6 next, so that the record of the hearings can be completed and made available to the public.

Is there anything else?

Without objection, then, the committee will adjourn.

(The following material was received by the committee:)

WHITAKER CABLE CORP.,
North Kansas City, Mo., April 21, 1965.

HON. WILBUR D. MILLS,

Chairman, House of Representatives Ways and Means Committee, House Office Building, Washington, D.C.

GOOD MORNING, CONGRESSMAN: I felt it was necessary that I write you in relation to the bill you introduced into the House of Representatives, H.R. 6960, and express an opinion.

Until January of this year, I was chairman of an industrywide committee on Canadian tariffs which fought diligently for the enactment of countervailing duties to offset the Canadian tariff remission scheme. As this fight progressed through last year, it became more and more apparent that another solution or approach should be taken for the benefit of all. Therefore, I would like to express some of my conclusions in regard to the passage of your bill.

The recent automotive products agreement signed between the United States and Canada should be enacted.

The Canadian tariff remission scheme which was rescinded on the signing of the new agreement was license to invade the U.S. market on automotive products, including replacement parts, at intolerable competitive prices and had to be stopped. Countervailing duties would have stopped it, but undoubtedly there would have been a retaliation which would have brewed no good.

It must be remembered that Canada could have closed its borders to U.S. automotive products as so many nations are in the process of doing or have already done. This would have resulted in our losing a very important export business with its serious effect on our gold deficits. It appears that with this agreement we not only will maintain our export business with Canada but have real possibilities toward expanding it.

There is no question that problems will arise which at times may seem almost insurmountable, but at a time when all nations appear to be having trouble getting along with each other, an approach to free trade with our neighbors could be most fruitful and constructive, particularly at a time when the automotive industry is booming all over the world. In fact, we are finding it difficult to keep up with the demand.

The agreement leaves much yet to be desired as it certainly is not "free trade" in the true sense. We should work toward true "free trade" in the industry which would eliminate all duties on all automotive products, including replacement parts, in a relatively short time.

Having been in and dealt with the automotive industry for almost 30 years, I am confident the same competitive market, which has held through the years, will continue to prevail. Though there is in all likelihood to be some displacement, the U.S. independent parts industry will expand with Canada.

Sincerely,

JACK F. WHITAKER, *President.*

STATEMENT OF THE RUBBER MANUFACTURERS ASSOCIATION, INC., CONCERNING
H.R. 6960

This statement is submitted by the Rubber Manufacturers Association, Inc., in behalf of its membership which is comprised of approximately 170 American companies engaged in the manufacture of rubber products. Among the numerous products of this industry are component parts of automobiles and other motor vehicles.

In submitting this statement in behalf of its membership, the RMA addresses opposition to a specific portion of the bill; namely, that part of section 302

concerning the conduct of investigations by the President to determine the extent and source of economic injury or "dislocation" to a firm or group of workers.

This statement does not relate to other provisions of the bill. This absence of expression about other provisions of H.R. 6960, however, should not give rise to any inference by the Committee on Ways and Means that the membership of this association in any manner supports these provisions. In respect of their complexity, it is felt that adequate time is not available for the development of a more comprehensive statement and the filing of such within the deadline established by the committee.

Section 302 deals with—among other things—the matter of submitting a petition for declaration of eligibility to apply for adjustment assistance and sets forth the criteria the President shall employ in making a determination on this matter.

PRESIDENTIAL INVESTIGATION AND SUBPENA OF RECORDS

Prior to making such a determination, the President—through any agency or other instrumentality of the U.S. Government—is required to conduct an investigation of the circumstances surrounding the alleged dislocation of the firm or group of workers who are the subject of the petition. In the course of this investigation, the President is authorized to subpoena documents and information pertaining to the investigation. According to the language of this section, this information could be required of any person and could relate to any matter that is pertinent to the investigation. The looseness of this language could well force the submission of information by companies whose competitive interests would be greatly affected by such action and whose submission of this information might offer only limited benefit to the success of the investigation. The breadth of this language could also require the submission of a much greater degree of information than would be essential and valuable to a meaningful investigation.

PUBLIC DISCLOSURE OF INFORMATION

It is further noted that section 302 would provide for the public disclosure of such information as might arise during the President's investigation. The only safeguard against such action is the President's determination (or that of the agency designated by him) that such disclosure would adversely affect the interests of a complaining party and is not required in the public interest. It is questionable that the actual extent to which such a disclosure could affect an individual company could be realized by the investigating Federal authority. Further, even if such adverse effects could be foreseen, the question then arises as to what degree the "public interest" might outweigh individual company interests and thus force the disclosure of the information.

It is also possible that under the guise of petitioning for a declaration of eligibility to apply for adjustment assistance a labor organization or a firm, for competitive reasons, could seek the disclosure of highly confidential information for reasons quite different from those stated in its petition. The disclosure of such information could result in a greatly enhanced position for the labor organization in any subsequent collective bargaining agreement and could improve the general competitive posture of the competing company.

This problem is further compounded by the fact that no definition is provided for a "group of workers." It appears that as few as two or three employees could file a petition and in turn could have their efforts duplicated by numerous other groups of equally small size. Such actions could easily lead to chaos and confusion.

USE OF FEDERAL AGENCIES

In the "exercise of any of his functions" under this section, the President is authorized to use the services of any Federal agency as he may direct and in such a manner as he may prescribe. It is not unreasonable to assume that there could be brought into an investigation the services of a Federal agency whose normal line of duties and area of responsibility are completely distant from the matter at hand * * * the investigation of economic hardship upon a firm or group of workers. It is dubious that such agency's entry into the proceedings would lend any substantial contribution to the success of their eventual outcome.

SUMMARY OF OPPOSITION

In summation, it is felt by the membership of the RMA that section 302 of H.R. 6960:

1. Gives the President unnecessary authority to compel submission of business records in an investigation ;
2. Is dangerously broad as to the scope of information to be submitted ;
3. Could give rise to the public disclosure of highly confidential company records ;
4. Could authorize the entry into the proceedings of Federal agencies whose competence in such matters may be questionable.

RECOMMENDATIONS

It is therefore recommended that the portion of section 302 that would provide for the above be deleted from the bill.

Such action would in no manner dilute or render less effective this proposed legislation. The framework of any investigation to be conducted pursuant to a petition could well be established within the language of paragraphs (b) and (e) of section 302.

Paragraph (b) sets forth the information the President shall seek in the course of such investigation, namely the nature of the alleged dislocation of a firm or group of workers, production trends concerning products similar to or competitive with those produced by the firm or group of workers, and the exportation from and the importation into the United States of such products.

Paragraph (e) provides for the holding of public hearings at the request of a petitioner or other person showing a "proper interest" and provides that interested persons shall be given the "opportunity" of appearing at such hearings.

The language of paragraphs (b) and (e) of section 302—the principles of which are already set forth in the Trade Expansion Act of 1962—provides ample authority and direction for the conduct of a meaningful investigation and hearings. In view of the fact that the Trade Expansion Act of 1962 already provides for this general authority and direction, it would appear unnecessary and premature for H.R. 6960 to expand these provisions to the point of requiring the submission of and possibly allowing the public disclosure of highly confidential business information.

MONTANA AUTOMOTIVE WHOLESALE ASSOCIATION,
Great Falls, Mont., April 27, 1965.

Re H.R. 6960, implementing the agreement on automotive products between the United States and Canada.

COMMITTEE ON WAYS AND MEANS, U.S. HOUSE OF REPRESENTATIVES,
Longworth House Office Building,
Washington, D.C.

OPPOSITION

We, the Montana Automotive Wholesalers Association, hereby go on record in opposing implementing the agreement on automotive products between the United States and Canada as indicated in H.R. 6960.

In this era of antidiscrimination, it appears that H.R. 6960 is an instrument to create discrimination. The mere fact that original equipment is to receive the benefits of such an arrangement so that only new products might be sold in Canada and no regard is given to replacement parts for the maintenance of the many used cars will bear out this fact. It will be impossible to police the sale of automotive products manufactured by automobile manufacturers as the cheaper parts will go in the automobiles manufactured in the United States without any decrease in cost and the American manufactured parts will be distributed at lower costs to the distribution field.

We also do not believe in robbing Peter (the American laborer) to pay Paul (the Canadian workers).

The particular arguments utilized for this hearing could be utilized on any other product or any other country at any other time.

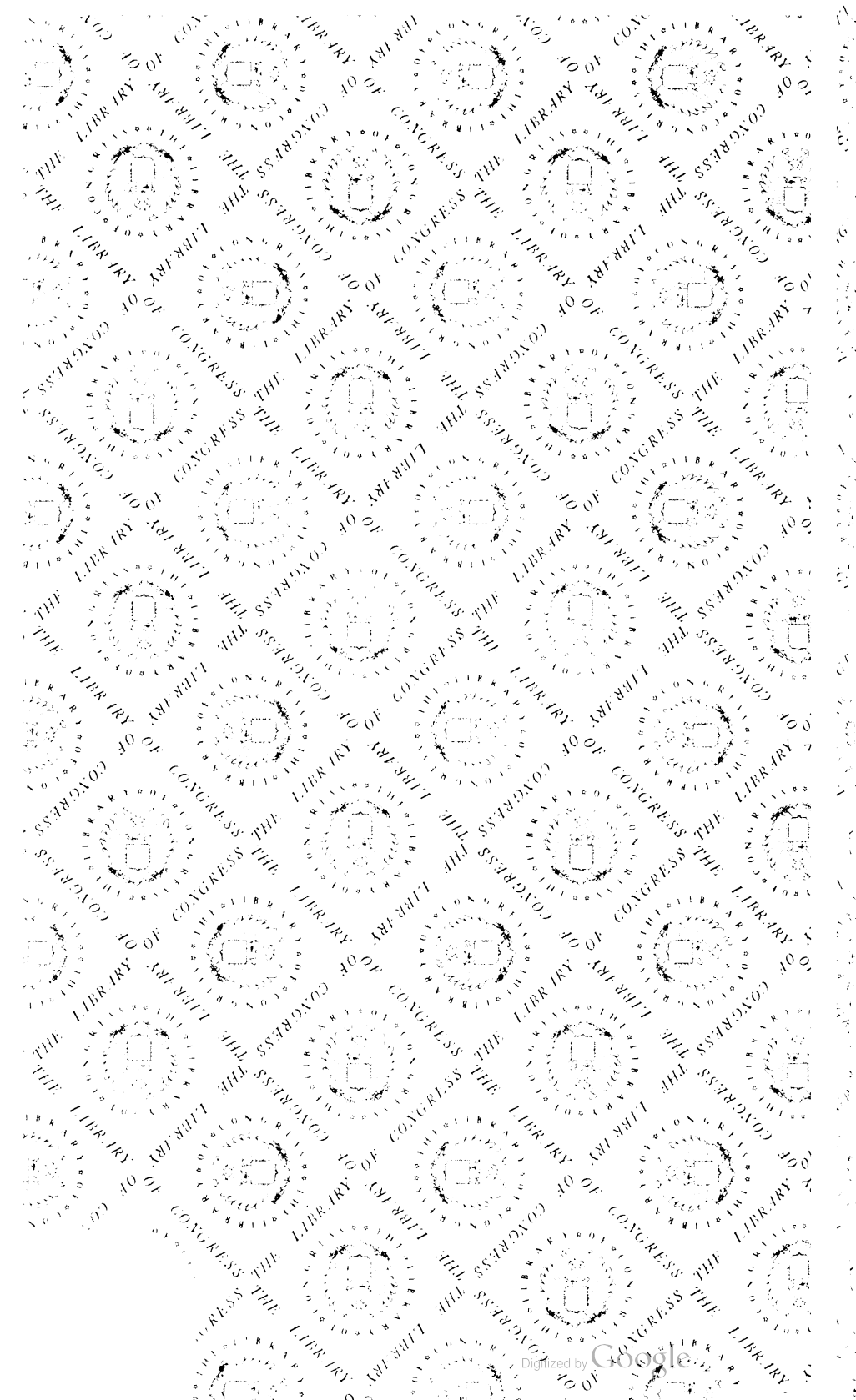
We further concur in remarks made in opposition to H.R. 6960 and in order not to repeat comments we conclude our written testimony.

Respectfully submitted.

RAY F. REAVLEY, *Executive Secretary.*

(Whereupon, at 12:05 p.m., the committee completed this hearing and adjourned.)

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